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SEPTEMBER 1984/VOL. 16, NO. 4

reason

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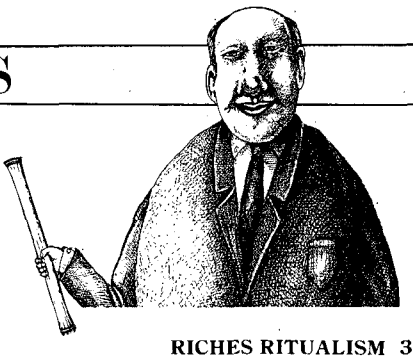

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NOTEs

This month's cover story is another in Jack Wheeler's series of investigations of Third World guerrilla movements that are trying to free their countries of Soviet occupation or Soviet-backed Marxist governments. Having previously covered the struggle against Soviet imperialism in Angola (April) and Nicaragua (June-July), Jack this month turns to Afghanistan, the only country in the world where people are currently fighting the Soviet Union face to face. His discussion of the mujaheddin's cause begins on page 22. Meanwhile, Jack is off on another three-month "tour of duty," following up on previous investigations and widening his field research to new areas.

The slightly new look of the cover this month, with a much larger and centered **reason**, is the work of REASON's new art director, Laura Main. Laura has a bachelor of arts degree in graphic design from California Polytechnic State University. This is actually the second issue she has designed. Her style is strong and innovative, and we think she will make the magazine ever more enjoyable.

This is not the first time, by the way, that the size of the logo has been changed. On REASON's first issue back in 1968, it stood a "large" one inch high. Over the years it has gotten as small as three-eighths of an inch and has been seven-eighths of an inch for a few years now. But as I gazed at REASON on the newsstand in my local bookstore recently, it seemed to me that the name and the idea of the magazine could be "proclaimed" more loudly on the cover. And our new art director agreed! We hope you like it.

—M. Z.

We were excited here at the Reason Foundation to see the July issue of *Venture* magazine. Its cover story, "When Entrepreneurs Take Over Government's Work," describes the growing entrepreneurial opportunities created by privatization of public services. The article draws heavily on material from REASON over the past several years (Oregon's Valley Fire Service, Scott Adler's World Mail Centers, private airport control towers, etc.) along with details from the Reason Foundation's Local Government Center (LGC). In fact, LGC's director, Phil Fixler, was an important source of leads for *Venture* reporter Kevin Farrell, and LGC's data bank of private public-service providers is discussed in the article. Back issues can be ordered for $2.50 from Venture, 35 West 45th St., New York, NY 10109.

Speaking of privatization, we really wonder about the postal monopoly. Two weeks ago we received a subscription order card from a man in New York City ordering a year of REASON for $7.87. The expiration date of the offer was 4/1/75, and the card was covered with grime. Stamped on the address side was this notation from the postal service: "Found in Supposedly Empty Equipment-GPO, NY (O.M.) Irregularity No._____." Nobody had filled in which irregularity this was, but once found, the card was dutifully mailed to us—nine years late!

As many REASON readers know, I have long been interested in private-enterprise fire departments, a subject whose progress has been covered in several REASON articles over the years. A number of readers have wished to encourage consideration of private fire service in their own communities. An excellent introduction to the subject is a new booklet, "Questions and Answers about the Private Fire Service." Single copies are available at no charge from the Private Sector Fire Association, 2006 Broadway, Boulder, CO 80302.

This country's first free-market institute, the Foundation for Economic Education, has elected a new president. He's John C. Sparks, a corporation executive who has been a FEE trustee since 1967 and has contributed more than 40 articles to FEE's journal, *The Freeman.* As one who was first introduced to free-market thinking by that journal, back in my college days, I'm pleased to see FEE prospering after the death last year of its founder and leading light, Leonard E. Read.

Readers in the New York City area will be pleased to see REASON on the newsstand starting with this month's issue. The magazine is being distributed in the Big Apple by Bernhard DeBoer, Inc., the national distributor that handles *Policy Review* and the *Public Interest.* If the three-month New York test goes well, distribution will be expanded throughout the Northeast and eventually across the country.

—R. W. P.

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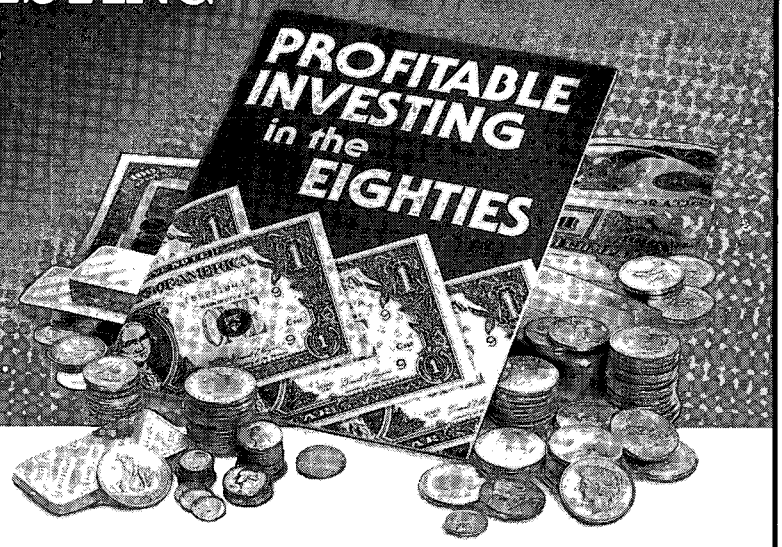

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Robert W. Poole, Jr.

How to Ground Plane Delays

If you've taken an airline trip recently, chances are you've had to pay with more than money. You've probably also had to pay with your time, as your plane was kept sitting on the ground well past departure time, thanks to "air traffic control delays." Such delays are becoming all too common. During one four-day period in May, 79 out of 86 Pan Am flights scheduled to land at JFK between 3:00 and 6:00 P.M. were delayed by air traffic control (ATC). Officials of Pan Am, Piedmont, United, and US Air have been complaining vociferously that ATC delays threaten their ability to continue operating.

The Federal Aviation Administration, which provides ATC for the nation's commercial airlines, admits that the delays are a matter of policy. "The delays you see are the safety valve in the system," FAA spokesman Dennis Feldman told the *New York Times* in June. But many observers question the adequacy of this safety valve. News reports have recounted an alarming number of near-collisions during the past six months, as the ATC system has attempted to handle surging traffic volume with about one-third fewer controllers than before the 1981 controllers' union (PATCO) strike. And the FAA's own statistics show a doubling—and in some locations a tripling—of "operational errors" in the ATC system.

What's happened is that the economic recovery has finally permitted the full effect of the airline deregulation of 1978 to be felt. Today there are 123 interstate scheduled airlines in operation, compared with just 36 before deregulation. Competitive pressures have led to a shift to efficient hub-and-spoke route systems, which concentrate large numbers of arrivals and departures within short time periods at major hub airports to facilitate connections. Unfortunately, the FAA's supposedly rebuilt post-PATCO-strike air traffic control system is proving wholly inadequate, in terms of both *physical* capacity at airports and *personnel* capacity in the control rooms.

The FAA's system is a classic example of bureaucratic socialism. It is run along military lines, with a kind of Corps of Engineers mentality. "There is no substitute for concrete and asphalt when you're talking about airport capacity," intoned new FAA Administrator Donald Engen in May, completely ignoring the role of *prices* in equating supply and demand. So because new concrete cannot be provided in the near term, the FAA's reflexive response is bureaucratic allocation of the scarce resource of landing and take-off slots.

Late in June, Engen addressed the personnel capacity problem by agreeing to add several thousand more controllers over the next 18 months. Even so, the airline industry rightly suspects that the FAA plans to utilize "flow control"—holding aircraft on the ground to ease controllers' workloads at busy periods—virtually indefinitely. And that prospect threatens to undo the benefits of airline deregulation. As United chairman Richard J. Ferris has put it, schedule control by the FAA is simply "a different and more insidious form of regulation. . . . In effect, what's happening is 'Goodbye, CAB; hello, schedule control.' "

What's needed to solve the problem is to move air traffic control into the marketplace, as recently endorsed by the national secretary of the US Air Traffic Controllers Organization. Ultimately, ATC should be recognized as a business activity, just like airline communications (which has always been provided by ARINC, a not-for-profit, airline-owned corporation). Users should pay for ATC services in proportion to their use, at prices that reflect supply and demand.

Several steps toward such a system could be taken right away, alleviating the system's present bottlenecks and removing the threat of FAA reregulation. The first step would be to authorize airport operators to charge market-determined landing and take-off fees. This would solve the immediate physical-capacity problem at busy airports by competitive bidding for access slots. The Transportation Department has recently asked for public comment on a proposal that would allow slots to be bought and sold at four busy airports.

Bidding for slots would put newcomer airlines on an equal footing with established airlines in the competition for airport access. Under the present system of allocation by committee, established airlines have received the lion's share of slots. But with market pricing, newcomers could bid for slots with their dollars, just as they bid for 727s and DC-9s.

Even with the slot problem solved, there would remain the problem of too few experienced controllers. That problem could be solved by a rapid expansion of the FAA's fledgling contract-tower program (see "Towering Entrepreneurs," by John Doherty, REASON, May 1983). Operation of several dozen of the smallest (Level I) airport control towers is now contracted out to private firms, typically at one-third to one-half less cost than under direct FAA operation.

There are currently 126 Level I and 157 Level II towers (the smallest two out of five categories). If all of those towers were contracted out, their 2,316 controllers could be reassigned to busy Level IV and V towers and to en-route control centers. This would relieve the shortage by providing *experienced* controllers where they're most needed, rather than hiring thousands of raw recruits as trainees. And it would avoid the sticky issue of the FAA hiring former PATCO controllers.

Finally, to hasten the transition to fully private ATC, it is time for a large-scale demonstration project to show that privatization can work at large, complex facilities, as well as at small towers. The FAA should go out to bid for a contractor to operate one of the major en-route control centers for a several-year period. Aerospace firms such as Bendix, Lear-Siegler, and Lockheed have all operated large-scale ATC systems on contract overseas, as has the British firm International Aeradio, Ltd. A geographically isolated region such as south Florida would make an excellent test area for such privatization.

The time for action on air traffic control is now. Continued operation of this vital system by a regulation-minded bureaucracy is a major threat to the robust, competitive airline industry that is now emerging. To preserve the very real consumer gains of airline deregulation, air traffic control must be deregulated, as well.

Robert W. Poole, Jr.

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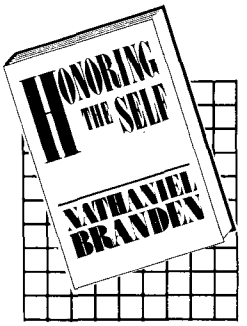

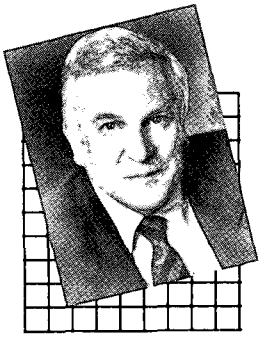

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Nathaniel Branden, Ph.D. is the author of Honoring the Self, The Psychology of Self-Esteem, Breaking Free, The Disowned Self, The Psychology of Romantic Love, and (with E. Devers Branden) The Romantic Love Question & Answer Book. He is a pioneer in his studies of self-esteem, personal transformation, and man/woman relationships.

He has guest-lectured and conducted therapy demonstrations and training workshops in over fifty colleges and universities throughout the United States, Canada and Europe. He has taught at UCLA Extension and USC.

He is the Executive Director of the Biocentric Institute, which offers training workshops to mental health professionals in his "Biocentric approach." He is in private practice in Los Angeles and lives in Lake Arrowhead, California.

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Letters

He's Hooked

REASON magazine has become my lifeline. I've been subscribing for almost two years now and extend my subscription further at every chance you give me. I've discovered a new "REASON" to live. Originally, there was only sex, drugs, & rock 'n roll. I'll pass on the drugs, by choice, but I'll gladly take a double dose of REASON! Your summer double issue is a mouthful (brainful?).

Roberto M. Sanabria
Hampton, NH

Molotovs, Too

Peter Samuel writes about the Grace Report's potential for reduction in the cost of government ("Battling the Bulge—Gracefully," May 1984) and notes the generosity of the Foreign Service retirement system. While I agree that the system is generous, Mr. Samuel's parenthetical statement "no doubt to compensate for the wear and tear of the international cocktail circuit" was uncalled for.

I do not deny that some of the Foreign Service's work is accomplished through social intercourse. However, life in the Foreign Service is not all fun and games. I am confident that Mr. Samuel goes to work in the morning and returns home in the evening by essentially the same route, day in and day out. Foreign Service personnel frequently travel by different routes every day in an attempt to foil any terrorist attacks. I have a friend who suffers from a disease contracted in West Africa. He will, given the present state of the medical arts, have it for the remainder of his life. I had a friend who was killed in the bomb attack on the embassy in Beirut.

No one is forced to join the Foreign Service. Those who do recognize the risk but are, generally, pleased to serve. It is grossly unfair and inaccurate for anyone to intimate that life in the Foreign Service is nothing more than going from one cocktail party to another.

Stanley R. Nevin
US Agency for International Development
Rabat, Morocco

Masters of Exploitation

That was a terrific article by Jack Wheeler on the Contras ("Fighting the Soviet Imperialists: The Contras in Nicaragua," June-July). Especially interesting was his description of how the Sandinistas forced the peasant farmers to sell their crops to the state at low prices and buy needed goods from the state at high prices. Next to outright slavery, nothing exploits workers as much as does the monopolization of markets. And from a Marxist government, tsk, tsk!

Richard D. Fuerle
Monroeville, PA

Remembering REASON

I wish to commend REASON on the new department Life & Liberty (June-July). In particular, I appreciated the opening essay, "Beyond the Political," by Marty Zupan.

As a subscriber since 1971, I have watched REASON gradually change in content from mostly philosophy and commentary to mostly politics, current events, and economics. In style, REASON has moved from impassioned editorializing to often dry reporting. While these changes have moved the magazine forward in acceptance and audience size, I have vaguely felt that REASON forgot *why* its mission is so important.

So, thanks again for the essay by Ms. Zupan. It appears that my fear was unfounded. I hope Life & Liberty continues to be developed into the conscience of REASON.

Paul Bilzi
Hopkinton, NH

Suspicious Statistics?

It was dismaying indeed to pick up your April issue ("Does Doom Loom?) and read again the same misleading statistics Julian Simon has been using for years to justify his assertion that illegal immigrants pay more in taxes than they use in welfare benefits. I refer to the usage-of-government-services statistics of "free medical [care], 5 percent; unemployment insurance, 4; food stamps, 1; welfare payments, 1; child schooling, 4."

Those statistics were taken from a Department of Labor survey of apprehended illegal immigrants in California done in 1975. Not only is there good reason to think that the data are now out of date, but in view of the fact that the Supreme Court decided in 1982 to compel the states to provide free public education to the children of illegal immigrants, it's likely the use of this costly government service has escalated dramatically in recent years.

Beyond that, David North, one of the two authors of the 1975 study, has written on a number of occasions that the use of the study's data as being representative of the illegal immigrant population as a whole is very misleading. The reason is that the subjects interviewed were disproportionately young single males—not families with dependent children or elderly family members. In many cases, it's probable the detainees had not even been in the country long enough to meet minimum California residency requirements for welfare.

And, in a follow-up survey of the same population, North found that fully 77 percent of those originally surveyed eventually returned to work and held jobs in California. Of those, 49 percent eventually applied for and 35 percent received unemployment compensation—statistics conveniently overlooked by apologists for illegal immigration like Julian Simon.

If REASON wishes to join the side of those advocating unlimited immigration, it is free to do so. However, you should not delude yourselves or your readers with misleading statistics regarding the consequences of that policy prescription.

Patrick C. Burns
Federation for American Immigration Reform
Washington, DC

Mr. Simon replies: The study by North and Houston is representative of a large number of studies of the use of government services done prior to 1980; this may be seen in a comprehensive review by the staff of the Select Committee on Refugee and Immigrant Policy (summarized in Staff Report, pp. 549-51). I singled out the North and

(Continued on p. 65)

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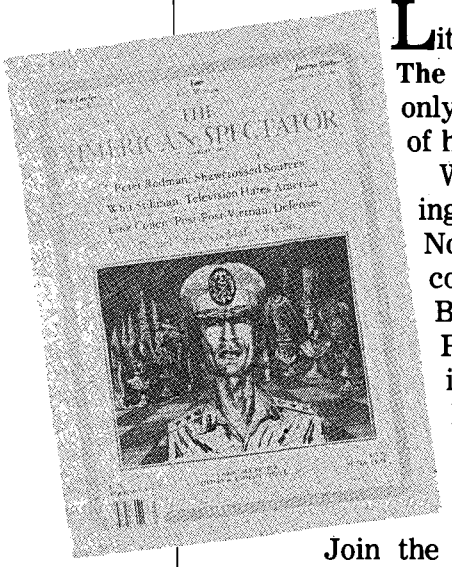

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—Irving Kristol

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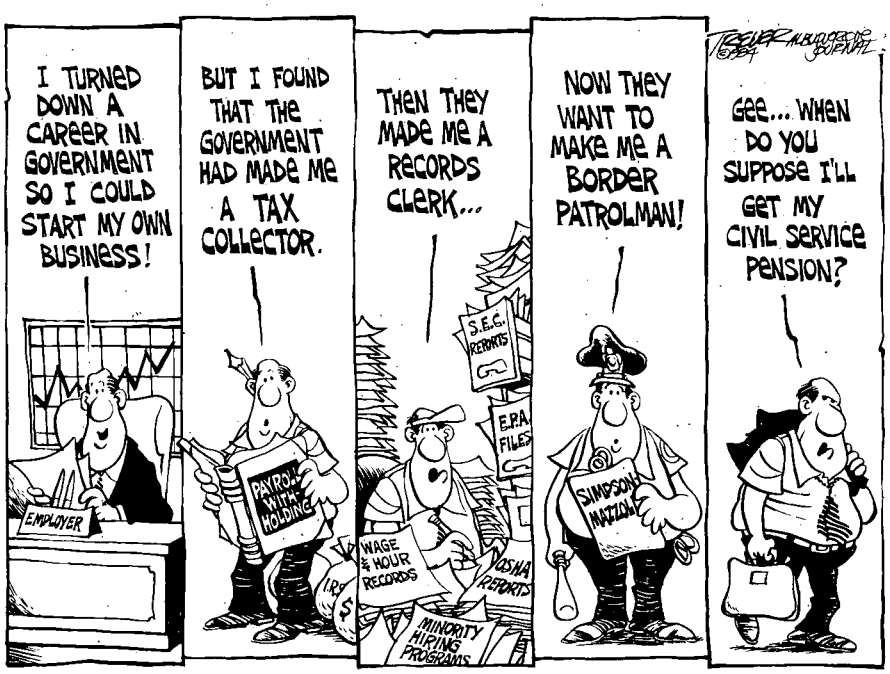
brickbats

Gratuitous insults on tax returns—otherwise known as freedom of speech—won't be tolerated by the IRS. Donna Todd of Georgia had a $35 tax debt on earnings of less than $3,000. She filled out her 1040 Form and sent it in with a check. Beneath her signature, she typed: "Signed involuntarily under penalty of statutory punishment." For those seven words, the IRS fined her more than $500, seized the $140 in her bank account, and filed a lien against her house. An Ohio woman was fined $500 for writing on her return that she didn't agree with military-spending policies. The women are two of the 5,528 taxpayers who have been hit with fines for filing "frivolous" income-tax returns. The IRS won't comment specifically on these cases, but it concedes that some prosecutors may be "overzealous" in interpreting the law. Sounds like the bloodsuckers are getting soft.

"Help stop communism. Support the free-enterprise system," James R. Lawson told the throng outside New York Police Headquarters. A right-wing rally of little old ladies in tennis sneakers? Hardly. Lawson is president of the Harlem Council for Economic Development, and he was talking about the state's monopoly on lottery numbers games. He estimated that 100,000 workers have lost their jobs as numbers runners because of a city crackdown on illegal (that is, privately sponsored) games. "No government agency can match this employment record," he said. Referring to the New York State Lottery, Lawson said, "If Governor Cuomo's people can write numbers, why can't the people of Harlem?"

Richard John Longstaff, a British-born resident of Dallas, was denied US citizenship by the Supreme Court. When he applied for a visa almost two decades ago, Longstaff "concealed" his homosexuality, according to court papers, by saying he did not have a psychopathic personality. At the time, a definition of that term included homosexuality. Rather than strike down this lunacy, Warren Burger and his pals upheld lower courts that ruled Longstaff failed to show good moral character, because he entered the country illegally. The only illegality was that it never occurred to Longstaff that a law-abiding person who prefers the company of men could be labeled a psychopath.

Life in Khartoum, Sudan, is no bowl of cherries for violators of Islamic law. An Italian monk was publicly flogged for possessing a bottle of whiskey, 16 bottles of wine, and a six-pack of beer. Then, applying the principle of an eye for an eye and a tooth for a tooth, a Sudanese court ordered teeth to be removed from the mouths of two people because they smashed a third person's tooth. Novacaine won't be allowed. In May alone, 14 amputations were ordered by the courts to convince thieves of the errors of their ways. Shangri-La it ain't.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THEN THEY MADE ME A RECORDS CLERK...
NOW THEY WANT TO MAKE ME A BORDER PATROLMAN!
GEE... WHEN DO YOU SUPPOSE I'LL GET MY CIVIL SERVICE PENSION?
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SIMPSON-MAZZOLI

When is a fascist not a fascist? When he's a member of the British Parliament. *Fascist* joined the list of words banned in the House of Commons. After a Labour legislator called a Tory member a fascist in a debate on South African Prime Minister Pieter Botha's recent visit to Britain, speaker Bernard Weatherill ruled that the word was taboo. A rose by any other name...

It only took 20 years and $1.2 billion for Congress to realize that the Garrison irrigation project in North Dakota might be a dumb idea. The huge project would ravage thousands of acres of prairie and wildlife refuges so that a few hundred farmers could get the extra water needed to grow corn and potatoes. These are crops the Department of Agriculture is paying farmers everywhere else not to produce because they're in surplus. And North Dakota already has the highest per-capita rate of participation in the pay-not-to-grow program. Rather than just kill the plan and hang their heads in shame, the solons of Capitol Hill have appropriated another $53 million so that a blue-ribbon commission can develop ideas for a more efficient water project. We shudder to think of how they can top this one.

A block on the lower East Side of New York City was intentionally covered with garbage for the benefit of a film crew making a public-service TV commercial. The staged event depicts Mayor Edward Koch showing his outrage at the filth and urging citizens to keep the streets clean.

One of the Watergate "plumbers," G. Gordon Liddy, will deliver the keynote address at the convention of the National Association of Plumbing-Heating-Cooling Contractors in Atlanta. An association spokesman says, "I know we're going to generate some laughs, but what the hell—that's part of public relations."

—MARK EDWARD CRANE

"Millions of gold coins in circulation today are counterfeits —and it's impossible to spot most of them with the naked eye."

—Daniel Rosenthal, Editor, *Silver & Gold Report*

In a Special *SGR* Report, you'll learn which are the two most counterfeited gold coins. The one popular gold coin (formerly a favorite of ours) which is now so frequently—and skillfully—counterfeited that we have to warn "Do not buy." The 5-second test that will tell you if the bullion coins you have in your safe deposit box are real or counterfeit.

The shocking fact is that in 1981 alone, 14 **tons** of gold were used to make counterfeits. That's enough to manufacture $300 million of counterfeit US double eagles —or $3 billion of gold-plated brass krugerrands. In 1982, it was worse.

How many counterfeit gold coins do you have in your safe deposit box? How do you know your krugerrands—or maple leafs, or Mexican "gold" 50 pesos—are *really* gold? What makes you sure they're not gold-plated bronze, lead, or whatever? And how do you know that your "numismatic" gold double eagles, dated in the early part of the century, aren't phonies minted just last week in the Middle East?

"Not even an expert can tell a counterfeit by sight alone"

I've been a coin collector since I was 9 years old. I've been writing about and investing in silver and gold for 16 years. I've looked at—and handled—thousands of these coins professionally. And still, **I know I can't be sure**—without other tests—which are the real and which are the counterfeit coins.

"Fortunes will be made in silver & gold. Some of them will be lost in counterfeits."

Silver and gold prices bottomed recently and are back on the rise again. Even if the price rises are modest, people are going to make fortunes—small and large—in the coming boom.

BUT, when they go to sell their coins, they're going to be shocked to find that some of their gold coins are fakes. They'll think each of their coins is worth $800, $2,000, or even $4,000—but will get only $1.50. And the same thing will happen with silver.

Silver and gold dealers pale at the word "counterfeit." It's terrible for their business. So while almost all dealers will check out the coins they buy from you, don't expect them to *warn you* about the danger. The growing risk of counterfeits is one of the best-kept secrets of the bullion industry.

Back in 1981, when my newsletter, the *Silver & Gold Report*, first warned against investing with IGBE—and later exposed the fraud at Bullion Reserve—reaction was the same. *SGR* was "washing dirty linen in public." We were "hurting the image of the hard-money movement." And worse.

But, today, I have a small mountain of letters from grateful investors who heeded our warnings and got their money out. Very unhappily, I also have a second small mountain of letters from investors who weren't subscribers. They got our warnings too late. They were terrible, heart-rending letters. The people were pleading: Was there anything we could do to help them. Unfortunately, by then it was too late.

Exactly the same thing will happen again... with counterfeits. This problem is going to explode—just the way the IGBE and Bullion Reserve frauds exploded. It will be in newspapers, on TV, the radio, everywhere. That's when people will rush to their vaults to check their coins—and that's when it will be too late.

That's why the *Silver & Gold Report* has prepared a special report on *Counterfeit Gold Coins—and how to avoid them.* The report will show you...

- **5 warning signs** that you may already have counterfeit gold coins in your portfolio.
- **The two types** of counterfeit gold coins—the gold-plate counterfeits with a brass or lead inner core; and the counterfeits made of real gold. Why, the real-gold counterfeits pose the greater danger to you.
- **Counterfeit gold coins vs. counterfeit $100 bills.** Why the counterfeit coins are easier to make, lower risk to pass, and, of course, worth *a lot* more.
- **What to do** if you suspect you may already have been stuck with counterfeits.
- **The two most counterfeited** gold coins.
- **One popular gold coin**—formerly one of our favorites —that got too popular. The counterfeits of this lovely coin are now so common and so well done we have to warn you, "Do NOT buy this coin even if you **think** you have the real thing."
- **Why the Middle East counterfeiters** LOVE gold coin jewelry.
- **The 5-second test**—sight, sound, and density—that will enable you to **spot all known varieties** of counterfeit krugerrands and other major bullion coins.
- **The 2 safest gold coins** to buy.

Special Introductory Offer

At a time like this, when the seeds of the next rush into silver and gold are being sown, there are 4 key reasons why you should be reading the *Silver & Gold Report.*

First, *SGR* **helps you avoid catastrophic dealers.** We first warned against IGBE back in July of 1981. While the *Wall Street Journal, L.A. Times,* and *New York Times* were accepting huge ads from the firm, we were printing 7 explicit warnings against them. When IGBE went belly up in 1983, they stuck almost 27,000 investors for close to $40 million in losses.

We also ran a major expose of Bullion Reserve. This gave our subscribers the time to get about $12 million out before that firm exploded. "The first warning [about Bullion Reserve]," writes the *Wall Street Journal,* "came in a newsletter published by gold expert Dan Rosenthal."

With silver and gold prices moving up, more flakes and frauds are being attracted to the bullion industry. There will be more frauds and bankruptcies. *SGR* is the only newsletter with the expertise and guts to warn you.

Second, *SGR* **helps you get silver and gold coins at rock bottom prices.** When the bullion market is moving up, people don't worry as much about getting good prices. But *SGR's* exclusive price surveys rank 31 leading US and Canadian dealers by name in 14 categories, depending on how much and what type of silver and gold you want to buy or sell.

You can save as much as $26 per krugerrand; $69 on a 100-ounce bar of silver; and $604 on a $1,000 face-value bag of silver coins. "SGR's surveys of leading bullion dealers," writes Chip Wood, Editor, *Moneytalks,* "have helped...investors make millions of extra dollars on their purchases of precious metals."

Third, **timing.** In June of '82, for instance, we called the bottom of the silver market within days (we were off only 22¢). More recently, in mid-1983, while silver and gold prices were declining, *SGR* was warning its readers that silver and gold would continue to decline —for the short term—before resuming their upward march. Later, *SGR* again called the bottom of the market with uncanny accuracy, this time within weeks of the actual bottom.

No: *SGR* is not infallible. But, when we miss, we don't try to cover our tracks like so many newsletters. We publicly admit our errors, discuss what went wrong, and what you should do about it. Some of our very best forecasts have grown out of a public analysis of our previous errors.

Fourth, **counterfeits.** As the price of bullion goes up, you can expect more and more counterfeits. Each counterfeit is worth more and there are more naive, unsuspecting investors to pass them too.

As with the Bullion Reserve fraud, *SGR* is the first publication to take this story public—and to explain in clear, non-technical language what you must do to avoid getting stuck.

Any one of these four points can save—or make—you 10 to 1,000 times the cost of your trial subscription. We're making an excellent introductory offer: A half-priced six-month subscription (12 issues) and you get the Special Report on Counterfeits as a free bonus. Finally, you get a 30-day unconditional money-back guarantee. So, send in the coupon below today.

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1984 Silver & Gold Report

TRENDS

BABY BOOMERS TAKE TO LIBERTY

For years, observers as diverse as Nobel laureate economist Milton Friedman and New Left theoretician Carl Oglesby have pointed out that conventional political labels of "conservative" and "liberal" are misleading and actually tell little. The point seems to be particularly true of the baby-boom generation that is now coming of political age, with encouraging signs for individual liberty.

No less a minion of the political establishment than Lee Atwater, deputy director of the Reagan-Bush '84 Committee, recently estimated that a staggering 40 percent of the electorate doesn't fit within the conservative-liberal taxonomy. These, he said, fall instead into two groups: populists who are economically liberal and socially conservative, and libertarians who are economically conservative and socially liberal.

Atwater's analysis is consistent with that of several political scientists, William S. Maddox and Stuart A. Lilie of the University of Central Florida, reported on in Trends several years ago ("Rethinking the Categories," March 1981). Maddox and Lilie identified four ideological belief systems (liberal, conservative, libertarian, and populist) representing the four combinations of sympathy or hostility to government economic intervention and to individual liberties.

Atwater figures the baby-boom generation is heavily libertarian. He describes their politics as "anti-elite, anti-establishment, anti-big government, anti-big institution and anti-big labor."

Atwater has no illusions that either major party has captured the hearts of libertarian-oriented baby-boomers. With baby-boomers carrying increasingly greater weight in the voting booth, he predicts that a combination of conservatives and libertarians will be a deciding factor this year and in years to come. (In contrast, he says Ronald Reagan won by putting together a coalition of conservatives and populists in 1980.)

Atwater is perhaps too sanguine about his candidate's appeal to voters of the baby-boom generation, but his calculation of their views is probably well taken. The old liberal-conservative labels are becoming obsolete. Despite the conventional political dogma, large numbers of voters evidently sense the symmetry between government power in the economic and social spheres, and they're becoming more skeptical of both. Politicians who ignore that insight may be doing so at their own peril.

HEALTHFUL NEWS FOR HEALTH CARE COSTS

One of the most important medical breakthroughs in the 1980s may turn out to be a development that has nothing to do with treating patients in the traditional sense. It's a healthy dose of market competition, and it's leaving patients a lot better off.

For years, the conventional wisdom has been that even if competition might benefit consumers in *some* areas of the economy, it has no place in the health-care industry. There, the argument has gone, suppliers are in a unique position to keep prices high because their product is so essential. So competition among doctors or hospitals will not lead them to reduce prices to attract customers; instead, they will *raise* prices in order to maintain revenues as a given number of patients is spread among more doctors and hospitals. Hence competition in the medical industry has long been deemed unhealthy.

Medical costs have seemed to bear out this conventional wisdom, persistently rising at a faster pace than consumer prices as a whole over the last two decades. Of course, there wasn't much competition to speak of, because of a combination of licensing laws, which hold down the supply of medical practitioners, and regulatory control of hospitals and other providers. But that's beginning to change, and data showing the results are rolling in.

Take health maintenance organizations (HMOs), organized as group practices and offering health-care services for

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Defining Defense: The 1985 Military Budget

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a flat monthly fee instead of charging for each service. The American Medical Association has long fought the upstart HMOs, but they've continued to grow in number. Enrollment boomed by 18 percent last year, to 13.8 million people in the United States.

Some 40 studies over the years have found that HMOs offer less-expensive care than the traditional fee-for-service arrangement. Yet these studies were criticized, because as the *Los Angeles Times* noted, "all of them left open the possibility that the type of person who selects a prepaid program is healthier and therefore has fewer expenses." Comparing HMO patients and fee-for-service patients was probably a comparison of apples and oranges, said skeptics.

Now, the Rand Corporation, a West Coast think tank, has published a study that made sure that apples were being compared with apples. The Rand study randomly assigned 2,362 Seattle residents to traditional fee-for-service health care (they could choose their own physicians) or to an HMO. The result: although the two groups were statistically comparable, the difference in their health costs was dramatic. Health care for the HMO patients cost 25 percent less altogether; a large part of the explanation is that they spent 40 percent fewer days in the hospital.

Another lower-cost health-care alternative recently won a competitive victory in Virginia. In many states, health-care providers have been protected from competition by "certificate of need" regulations. Before a provider can start operating in these areas, it must prove—often to a board made up of existing providers!—that there is a need for its services.

This is the situation that confronted a for-profit home nursing service that wanted to offer care in Virginia at a rate between $5 and $45 an hour cheaper than existing (nonprofit) services. When the state denied certification to the new service, saying that it would cause competition, the Pacific Legal Foundation took their case and won a reversal of the decision.

On another front, freestanding emergency centers are giving hospitals across the country a case of competition in treating minor injuries and ailments. "Studies indicate that 80 percent of all patient visits to hospital emergency rooms could be better served elsewhere," claims James Roberts of the National Association of Freestanding Emergency Centers. Around the country, 1,200 centers are now attracting much of that business with rates as much as *40 to 80 percent* lower than hospitals'. Following the success of independent emergency centers, freestanding surgical centers have also started springing up.

Although in some locales doctors and hospitals have responded to the new competition by lobbying friendly politicians to prohibit it, others see the writing on the wall. "All the rules have changed," an official of a Hayward, California, hospital told the *Los Angeles Times*. "Hospitals are much more competitive."

Hospitals that in the recent past would have considered themselves too genteel for price competition are now cutting prices. Iowa Methodist Medical Center responded to competition—a new Medical Care International surgical center—by slashing prices on 41 common surgical procedures and instituting a flat-rate payment system. The charge for a vasectomy without complications, for example, which had averaged $374, was lowered to a flat $294.

Hospitals are also discovering advertising. In one Los Angeles case, a newspaper ad depicted "Magic" Johnson, power forward of the Los Angeles Lakers, on a gurney. "We helped Magic rebound," the ad boasted.

And hospitals are being spurred to trim costs. John Bedrosian, cofounder of a chain of investor-owned hospitals, notes that until recently hospitals were known for "a woeful lack of management systems, management procedures, management disciplines,...management structures—management *period.*" But now, about a third of the nation's nonprofit hospitals are following the lead of the relatively new investor-owned chains and joining a "hospital system" so that they can share services and spread costs.

One such system is SamCor Health Resource Network, a $400-million operation in Phoenix that runs nine nonprofit community hospitals in Arizona. Two years ago SamCor set up a profit-making subsidiary called DynaCor to offer hospitals such services as data processing, bill collection, and equipment leasing. Now the former head of SamCor, Stephen M. Morris, is recommending that the entire nonprofit operation be sold to one of the for-profit hospital chains. Says

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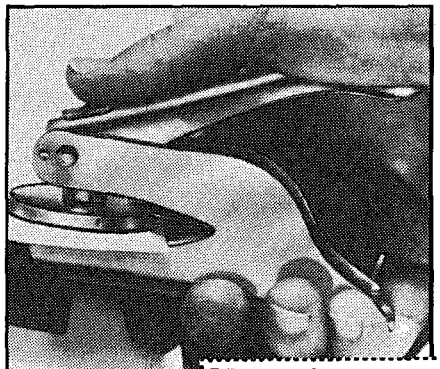

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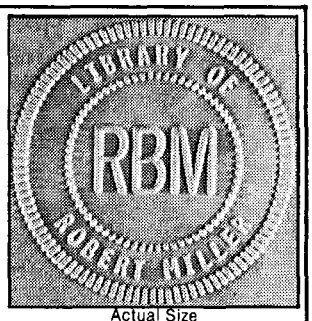

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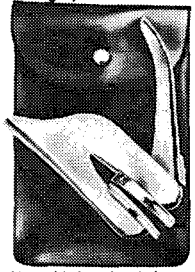

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Morris, "It has become my conviction that our nation's health-care system will either go the way of government control or be placed in the hands of private industry." Morris's own conclusion is that "private industry is best-equipped to do the job."

Occasionally myths die hard. Facts, however, are stubborn things, and the facts are indicating that competition is as healthy for health care as it is in other sectors of the economy.

WHY FIGHT A LOSING BATTLE?

For $60, you can buy from a street dealer a gram of cocaine that is several times purer than what you would have paid $100 for last year. Moreover, the domestic production of marijuana is reported to have soared within the last year, with the 1983 harvest estimated to be worth $14 billion. Such is the availability of dope these days—what one drug-enforcement official recently called "a tremendous glut"—despite President Reagan's much-publicized war on drugs.

Indeed, federal drug-enforcement agencies have enjoyed generously expanded budgets and staffs since Reagan entered the White House. And the federal agents have largely focused their efforts on cocaine, spending 38 percent of their time in pursuit of coke smugglers and dealers. Yet of an estimated 18,000 aircraft trips to smuggle coke from South America into the United States last year, the authorities suppose that they've intercepted little more than one percent. And a recent General Accounting Office study estimates that altogether the federal drug agencies seize less than one-fifth of all marijuana and not even one-tenth of all cocaine, heroin, and other "hard drugs" in the United States.

The House Select Committee on Narcotics Abuse and Control reported in June a similar failure of international drug-enforcement efforts to reduce the production of illegal drugs in Asia and Latin America. The report noted the one-third drop in the street price of cocaine in the United States and largely attributed the greater availability of drugs to a vast and worldwide surge in the production of coca plants (from which cocaine is derived), opium poppies (the source of heroin), and marijuana—despite increased efforts to curtail such production.

In a number of recent press reports on the failing drug war, the comments of various drug warriors add up to a message that perhaps even some of the agents themselves are coming to see, albeit reluctantly: that drug prohibition can never succeed. Said one officer to the *Miami Herald*: "We are not winning." "It's all over the place," remarked another. And, speaking to the *New York Times*, Francis Mullen, Jr., head of the federal Drug Enforcement Agency, conceded, "When you have 12 million people using [cocaine], and you have continuing ready availability of the drug, then we are losing."

So it may be that John LeMoult, an attorney with 20 years of trial experience, reflected the view of a growing number of Americans when he urged in a recent *New York Times* op-ed piece that we "examine the benefits of legalization." LeMoult pointed out that legalizing drugs would bring down their price drastically, thus dealing crime "a shattering blow": "With addicts no longer desperate for money to buy drugs, mugging and robbery in our major cities would be more than cut in half. The streets would be safer." And without their black-market profits, "huge crime rings would go out of business."

Moreover, noted LeMoult, "the cost of law enforcement, courts, judges, jails and convict rehabilitation would be cut in half. The savings in taxes would be more than $50 billion a year."

Which is to say nothing of the restoration of individual rights should the fruitless war on drugs be called to a halt.

MAKING TEACHERS THEIR OWN EMPLOYERS

Recommendations for improving public education are currently a dime a dozen. But some fundamental problems with public schools are rarely addressed. For example, excellent teachers—unlike excellent entrepreneurs and professionals in the marketplace—have very little incentive to do well in the public school system. "An entire range of entrepreneurial opportunities is completely cut off to teachers who remain within the system, which denies itself the benefits of their ambitious goals," according to Jessica Shaten of Math Unlimited Minnesota and privatization expert Ted Kolderie of the Hubert H. Humphrey Institute of Public Affairs.

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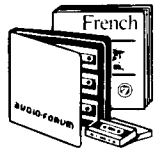

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To remedy the situation, they suggest introducing the benefits of the marketplace into public education. In a pamphlet published by the Sequoia Institute ("Contracting with Teacher Partnerships"), they propose that school systems contract out the education of youngsters to entrepreneurial teacher partnerships. Within the partnerships (or cooperatives or corporations, depending on state law), groups of teachers would be free to choose their own colleagues and decide among themselves the most efficient ways of allocating salaries, teachers' work loads, curriculum development, and which paraprofessionals to hire. School districts could then invite competing bids by partnerships and reimburse them according to the number of students they attracted. This, predict Shaten and Kolderie, would "kindle a competitive spirit in which teacher partnerships [would] seek to distinguish themselves as they vie for potential contracts and skills."

The relationship between contractors and clients is substantially different from an employer-employee relationship. For example, seniority and collective bargaining, both of which are established features of the public-school status quo, would hardly be suitable in a contracting relationship. "It should be made clear... that individuals who are affiliated with the partnership...are not considered to be public employees," Shaten and Kolderie observe.

Although the teacher partnership idea is new, Shaten and Kolderie point out that there are already numerous instances of school boards contracting out various aspects of education. For example, near Chicago, a former teacher has contracted with 40 public-school districts to provide computer-assisted instruction for students who have dropped out of school. And many school districts around the country contract with social-service agencies to provide special education for handicapped students.

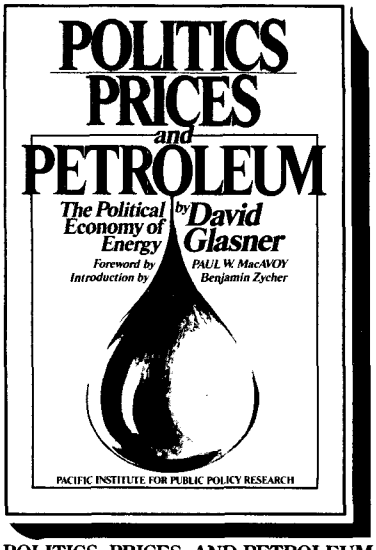
Shaten and Kolderie told REASON that they have discussed the partnership idea with several individual teachers, and the response has been enthusiastic. "The good teachers have perceived that as things are structured now, their only opportunity for professional growth if they want more money and responsibility is to leave the classroom," they point out. Kolderie noted that Scott Campbell, chairman of the education task force of the prestigious Committee for Economic Development, is interested in the idea and has solicited more information about the mechanics of partnerships.

Of course, government-run schooling shows no signs of evaporating any time soon. But contracting education out to teaching partnerships would at least introduce the benefits of private entrepreneurialism. No longer regarding themselves as public employees, teachers would be less wed to the link between government and education. Contracting out thus might serve as a first step toward privatization of a government service with which there is a near-universal dissatisfaction.

TOWARD A PRIVATE OPTION TO FEDERAL FARM AID

Agricultural options, the latest innovation in the commodities markets, are slated to go on sale October 1, and commodities brokers are eagerly seeking agrarian takers. Outlawed in 1936 because of concerns about corruption in the market, the options are being given another chance, with a three-year test run.

BUREAUCRACY vs. ENVIRONMENT



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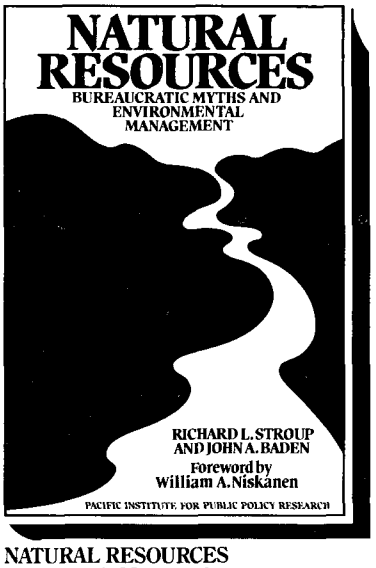

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For a farmer, an option (on a forward contract) offers a form of insurance: In buying an option, the farmer buys a right to receive at some future time an agreed-upon price for his product. If the going rate of his product is *higher* at that future date than the price named in the option, the farmer may decline to exercise the option and instead sell his product at the higher market rate. But if the market price is *lower* at the time, the farmer can sell at the higher option price.

Either way, the farmer reduces the risk he faces in the fluctuation of prices between the time of his initial investment—planting a crop, say, or acquiring young cattle to feed and raise—and the time he takes his end product to market. And the cost of this assurance is only the price of an options contract.

In addition to options, the commodities market offers a number of other mechanisms farmers can use as insurance. In a futures contract, for instance, the farmer contracts to sell a product on a specific future date, with the price of the contract left to fluctuate with the market. Whether the commodity's price rises or falls, the farmer can avoid an overall loss by buying back his own contract before the delivery date. Another mechanism is a forward contract, wherein the farmer agrees—and is obligated—to sell his product at a set price at some future date. If at the time of delivery the market price is higher than the contract price, the farmer doesn't do as well as he would have by relying on fluctuations of the market. Conversely, if the market rate is *lower* than the contract price, the farmer fares well.

Options, then, along with the other devices of the commodities markets, provide a private, commercial system that can act to stabilize the agricultural market and reduce the risks of farming as a business. That point holds great significance, because the primary rationale for massive federal farm-assistance programs—which cost taxpayers $20.6 billion last year, not counting the payment-in-kind program, off-budget spending, and indirect subsidies—is that such programs are necessary to stabilize the agricultural industry and insure farmers against the unavoidable risks of farming.

In a recent *Wall Street Journal* article, reporter Jeffrey Zaslow noted that brokers are running up against a lot of skepticism about the new options among farmers, many of whom are simply puzzled by the complexities of commodities trading. To overcome that resistance, Zaslow reported, commodities markets and brokers are spending considerable sums promoting the options to farmers and grain dealers. This year, the Chicago Board of Trade, for example, is spending $1.8 million promoting its soybean and corn options, and the Chicago Mercantile Exchange's promotion of its cattle and hog options will cost more than $700,000.

It will take some time for the options to take hold among farmers. But as one Kansas farmer told the *Journal*'s Zaslow, "These options are the coming thing.... The farmers who want to stay in business are going to have to accept it." And that could spell good news for the taxpayers.

RINGING IN MORE COMPETITION

When AT&T started charging 50 cents for long-distance directory assistance in May, MCI Communications Corp. soon started offering the service for 45 cents. And like AT&T, MCI—the nation's second-largest long-distance company, after AT&T—allows two free information calls per month to users of its long-distance service. Moreover, the firm dropped its monthly service charge and revised its long-distance rates to remain competitive with AT&T, which lowered its rates by 6.1 percent in May.

That episode is one of the latest efforts by both entrepreneurs and deregulation-minded authorities to extend the reach of telephone competition. Another step in that direction came with the Federal Communications Commission's decision to open pay-phone service to competition. By a unanimous vote, the FCC allowed the operation of interstate pay-phone service by individuals and businesses, in competition with the pay phones of local telephone monopolies. Under the FCC rules, pay-phone operators are allowed to charge whatever they want for interstate calls.

State utility commissions, however, have authority in deciding about local and intrastate pay-phone competition. Thus far, only Minnesota has followed the FCC lead, and California's utility commission is studying the issue. (But optimism about a favorable ruling for pay-phone competition in California is hardly warranted: the state's public utility commission recently rejected exposing local phone monopolies to competition for toll calls within their service areas.)

Another area where things are buzzing is the computer data transmission business. Several of the 22 local Bell companies spun off from AT&T after its break-up at the beginning of this year have announced plans to enter into local data transmission. Unlike regulated basic phone (voice-transmission) service, data transmission is open to competition. But the Bell companies' move is complicated by the resistance of non-phone company providers of local data-transmission service, who legitimately

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fear that the Bell companies may subsidize their data-transmission operations with phone-monopoly profits.

It is likely that, in this instance, regulators will take the conventional route and try to enforce complex, cumbersome—and ultimately *arbitrary*—rules to prevent the cross subsidization that the non-phone companies fear. Competition, however, would best be served by ending the Bell companies' local monopolies and opening *all* telecommunications services to anyone who wants to provide them.

A further step paving the road to greater phone competition was a June federal appeals court ruling affirming the legality of the FCC's order imposing "access charges" on telephone users. Since May, businesses have been charged a monthly fee of as much as $6 for access to telephone lines. The court's decision also upholds the validity of a similar fee for residential users. (The FCC has exempted the latter from the access charge temporarily, but the commission will reconsider such a charge next year.) The ruling affirms the deregulatory move to base local phone service charges on actual costs instead of subsidizing local service through artificially high toll-call charges (and other monopoly advantages). As local phone companies shift to cost-based pricing, the ground is evened for local competition—if the political barriers are removed.

DEREGULATION'S MOVING EFFECTS

Since the Carter administration deregulated the trucking industry, many of the major news media have closely monitored deregulation's effects on interstate trucking. But less media attention has been focused on an important segment of the industry—interstate moving. Recently, however, the *New York Times* published an interesting feature on the current state of the moving industry. It indicates that while the industry's experience with deregulation differs in important ways from other truckers', the changes for the moving industry have on the whole been very positive.

Customers have certainly had a better deal because of more-vigorous competition among movers. Before deregulation, noted the *Times*, the moving industry was characterized by virtually no price competition. That has now changed dramatically. The major movers are waging vigorous price wars, with discounts as high as 25 percent for individual customers. The *Times* reported that in January Allied Van Lines, one of the industry's six giants, instituted a 9 percent rate reduction across the board, and its competitors have followed suit.

Another big change for customers has been in the quality of service. Horror stories about incompetent movers were commonplace in the past. The *Times* notes that in prederegulation days, "service was fairly uniform—and was often criticized by consumers, who chronically complained of inaccurate estimates, late deliveries, damaged furniture and overcharging."

But these days, Allied sends a representative to visit a customer two days after the move to make sure there weren't any problems. Bekins Van Lines pays its customers $100 for every day it's late with a shipment. And for a small premium, United Van Lines provides a kind of insurance that replaces any damaged goods at full market value. One Bekins executive didn't mince words. "Compared to three years before deregulation, there is a tremendous improvement in the quality of service that customers are getting," Bekins vice-president Jack Harms told the *Times*.

In addition to deregulation, the recession provided movers with another powerful incentive to mend their ways—they were competing for a smaller market of moving households. Moreover, the industry is especially vulnerable to increases in interest rates, which mean fewer home sales and hence fewer moves. Yet the major movers' stayed afloat during the last recession, largely because they could cut prices and offer discounts. That's the kind of flexibility that came with deregulation.

Deregulation has meant yet another important change for the industry. Old restrictions on moving companies carrying general-commodities freight have fallen by the wayside. Progressive companies have taken advantage of the new opportunity. A moving company in Manhattan, for example, now moves not only household goods but computers and other delicate equipment for businesses. The recession provided additional impetus to diversify. "When it hit," the owner of the Manhattan firm told the *Times*, "it was either diversify or go out

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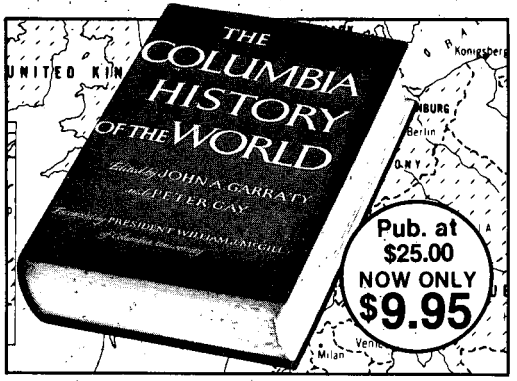

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of business." Moving companies are also gearing up to diversify in other ways with services to customers such as insurance, handling car registration in a new state, and even pet care.

The moving industry hasn't fully recovered from the recession, and its stocks are not doing as well as they might because of fears of increases in interest rates. But at least the industry is still viable and is regaining its health, and its customers are receiving improved service at lesser prices. Both sides have deregulation to thank.

MAKING IT IN THE MAIL MARKET

Given the United States Postal Service's record of efficiency (or more precisely, inefficiency), it should have come as no surprise that its electronic mail service (E-COM) flopped. The USPS board of governors in June voted to terminate the service by March of next year, ordering the Postal Service to seek bids for the sale or lease of the $40-million system. (One arrangement being investigated is the sale or lease of the system to a private company that may in turn hire the Postal Service to operate the system on a contractual basis. The private firm would set its own rates.) In 2½ years of operation, E-COM never even came close to achieving its projected volume of use and racked up some $50 million in losses.

The termination order came as welcome news to private electronic mail services, which have to compete with the Postal Service's heavily subsidized operation. (The 26-cent charge to send a one-page message via E-COM is nearly a dollar

GLOBAL TRENDS

SWISS GUARDS PRESERVE FREEDOM

SWITZERLAND—On May 20, Swiss voters rejected by a 3-to-1 margin a Socialist proposal that would have required banks to give information about customers' accounts to Swiss or foreign authorities investigating tax evasion or currency offenses. They also rejected—but with only a 51 percent majority—a proposal that would have stopped altogether the sale of real estate to nonresident foreigners.

Behind this seemingly straightforward news item lies a story as typical of Switzerland as the cragged mountains dividing the Swiss landscape. The vote on each proposal had come about as a result of an initiative, in accordance with a provision of the Swiss constitution that dates back to 1891. The constitution states that if at least 100,000 citizens petition for a piece of proposed legislation to be submitted to the voters, it will gain ballot status. As in several states in the United States, the initiative serves as a safety valve when voters believe they are inadequately represented in parliament or are unable to influence effectively the legislative process. This is especially important in a country like Switzerland. On the one hand, it is marked by cultural, linguistic, and religious divisions, yet on the federal level it practices a "democracy of consensus" in which the four major parties rotate power among themselves from one legislative session to the next.

Both of the May 20 initiatives were firmly opposed by the government as well as parliament. The chorus of voices opposing the Socialist proposal to curb Swiss banking secrecy laws was particularly impressive, including TV appearances by members of the government and bank-sponsored advertisements. The petition had been drawn up in 1977 following a scandal involving the Chiasso branch of the Swiss Credit Bank (the bank reportedly lost over $600 million as a result of schemes that had eluded even the bank's head offices in Zurich).

In the last analysis, the banking proposal was bound to fail. Swiss voters have traditionally voted down measures that tend to strengthen federal powers. In fact, of the 130 initiatives submitted to the electorate since 1891, only eight have been approved. Thus, the vote against providing greater federal control over the banks was not merely a result of the massive propaganda against the measure sponsored by the government, the non-Socialist parties, and other pressure groups. It was also an expression of distrust of excessive power by the central government.

The petition to end what the right-wing National Action Party called the "sellout of our homeland" suffered a narrower defeat. Like an initiative in the early 1970s to expel the foreign population from Switzerland, it tapped a deep reservoir of Swiss xenophobia. Tourism has become Switzerland's third-largest industry, and supporters of the measure contended that development of tourist regions was getting out of control because of property purchases by foreigners over the last 30 years worth more than $8 billion. But it is interesting that the measure garnered most of its support in the highly industrialized cantons and was most strongly opposed in the mainly rural cantons, whose economies are heavily dependent on tourism. It is the latter—the peripheral cantons far removed from the country's decision-making centers—that would have been economically penalized if the petition had passed.

Thus, on May 20 the Swiss reaffirmed their tradition of rejecting federal regulatory intervention. Such intervention is fundamentally alien to the Confederation, which survives *because* of its diversity and the shared interest in preserving it. While other countries belabor ways to dismantle government's regulatory intrusions, Switzerland tends to head them off at the pass.

—THEO E. BRENNER

FREE FROM THE DEADLY EMBRACE

BRUSSELS—Upon his return from a trip to London, the president of a major Flemish political party declared that he had found a half-billion dollars there. Some Belgian newspapers duly recorded this news as a headline for a story on privatization in England. The real news, however, was the change in the thinking among Flemish Liberals. Instead of trying to make

(Continued on p. 20)

less than the Postal Service's actual costs.) But the private services have continued to grow nonetheless, their careful balancing of marketing and expansion of the relatively new and unfamiliar service standing in sharp contrast to the USPS's approach of first developing a giant, flawed system, then trying to sell people on it. MCI Mail, for example, recently made a deal with American Express, in which the credit-card company is to market MCI Mail's services to its card holders. In addition to putting MCI Mail charges on card holders' monthly bills, American Express will also be offering the computer equipment required to use the electronic mail service.

If extinction is the eventual way of inefficient electronic mail services, then we should be prepared to also say goodbye soon to Intelpost, the Postal Service's international facsimile service (the electronic transmission of documents between countries via satellite). A recent House committee report found that while the government spent nearly $2 million on the Intelpost network in fiscal year 1984, the service grossed only $33,255. The report cited "the inability of the Postal Service to demonstrate competence in a competitive and unregulated environment" as the system's "most serious failure." So what else is new?

MORE MOVES TOWARD EUROPEAN SELF-DEFENSE

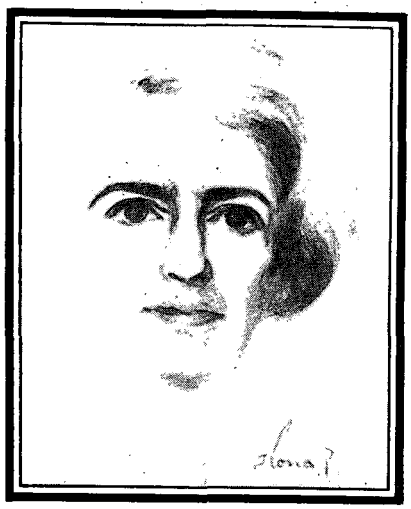
Until recently, US taxpayers' "contribution" of some $100 billion a year toward Western Europe's defense had been a gift horse into whose mouth most European leaders had not peered too closely. But the Europeans are now taking a more critical, though guarded, look at the wisdom of relying on the US government to defend them—and they're not liking all that they see.

French president Francois Mitterrand especially is uncomfortable with that dependence and has increased his efforts to revive the Western European Union (WEU), a defense organization founded in 1954 but soon left dormant in NATO's shadow. (The North Atlantic Treaty Organization had been established in 1949.) Representatives of the seven member nations of the WEU—Belgium, Britain, France, Italy, Luxembourg, the Netherlands, and West Germany—recently agreed to attempt a rebuilding of the union (though, at present, the Europeans refer to their efforts as a strengthening of the European contribution to NATO, rather than as an independent alliance).

A revived WEU, the French seem to hope, may help to develop a lucrative European high-tech arms industry to compete with the dominant US defense contractors. Already, the French and Germans are jointly developing a combat helicopter, and there are discussions among various WEU members about the joint manufacture of antitank missiles and a fighter plane.

In addition to the economic motivations for seeking greater responsibility for their defense, the Europeans have real concerns about the political and strategic sense of depending on the United States. Such dependence, some worry, is draining Europe of the will to defend itself. Moreover, there is growing criticism of the supposedly deterrent strategy of putting Europe under the US nuclear umbrella.

One of the Europeans' looming fears about their reliance on the United



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GLOBAL TRENDS

(Continued from p. 18)

government efficient, as they had attempted to do since 1981 when they came into power as a junior partner of the present government, they are now seeking to make a lot of government superfluous.

Led by the dynamic Guy Verhofstadt (see REASON's Spotlight, Aug. 1983), the Flemish Liberals recently formed a committee to propose ways to sell off state-owned companies. The national airline Sabena is one of the Liberals' early targets, but the less-conspicuous, nationalized banks also are on their privatization hit list. (For decades, Belgian Marxists have pushed for state control of all credit, and they have been more successful than many Belgian anti-Marxists are prepared to acknowledge.)

Among the more-popular issues stands the privatization of garbage collection, an area in which Belgium has a reputation as one of Europe's most inefficient countries, with prices increasing, service decreasing, and garbage collectors striking to get paid on time (the debt-ridden municipalities are notoriously bad at this). Private garbage collectors have calculated that in many cities they could save taxpayers 50 percent on collection costs. In the city of Liège, a major socialist stronghold, it could even be as much as 75 percent. But none of the municipal governments are ready to part with their garbage-collection fiefs, which are ideal havens for employing party members and getting private cars repaired for "free."

The Flemish Liberals realize that a transfer of state- and municipal-owned assets to the private sector will take some skill; hence their fact-finding trip to London. There, the Belgians found at least 28 different techniques used by the Thatcher government to set government-owned activities free from the deadly embrace of civil servants.

The 1981 parliamentary elections here were fought—and won—with the slogan, "*Not you*, but the government is living beyond its means." Unfortunately, the growth of government spending has hardly decreased since that year, although the present coalition has *tried* to reduce expenditures and slash taxes. The corporate tax rate, for instance, was 59 percent in 1981. Today it stands at 48 percent, and it was further reduced for all new investments. And within the Belgian Enterprise Zones—six of which are now under way for a 10-year trial period—there is no corporate tax.

The Flemish Liberal Party, under the pressure of its more radical members, is starting to recognize that it is useless to keep a lid on a political volcano if one doesn't first extinguish the fires beneath it. Demonopolization and privatization of government services are now seen as having such a fire-fighting function. The 1985 parliamentary elections may well be fought with the slogan, "Not the state, but *you* should do the job of government!"

—MICHAEL VAN NOTTEN

GLOBAL ROUND-UP

• *Competing signals.* The Luxembourg government has okayed a private television broadcast satellite system. The move has French authorities and those of other European states that operate government-owned TV satellites worried about competition.

• *French left out?* Recent opinion surveys in France indicate that a majority of French people favor a market economy, free enterprise, deregulation, personal initiative, private television, private schools and universities, and fewer corporate taxes, authors Jean-Francois Revel and Branko Lazitch report in a recent *Wall Street Journal* article. Moreover, conservative books have been bestsellers and books by Socialist leaders have all been "monumental flops."

• *Nationalization derailed.* South Korea plans to lease several lines of the state-owned railroad to private companies, who will take over management of the lines. Other of the 29 state lines—only two of which made money last year—will be shut down. Accompanying the rail-privatization move are plans to shut down a nursing junior college and a high school controlled by the railroad authority and to transfer the Seoul Railroad Hospital to private ownership.

States—their doubts about the degree of US commitment to European defense—was highlighted by the US Senate's recent consideration of the withdrawal of 90,000 US troops from Europe unless NATO's European members agreed to boost their defense spending. The proposed measure was sponsored by Sens. Sam Nunn (D-Ga.) and William Roth, Jr. (R-Del.), who are considered among the Senate's "hawks"—an indication of Americans' growing resistance to subsidizing Europe's defense. The Senate rejected the measure but subsequently voted to freeze the ceiling of American troops in Europe, at 326,000, unless the European allies increase their defense spending. The Nunn-Roth proposal represented the first serious effort in nearly a decade to pull back US troops. The narrow defeat of the measure—55 to 41—may serve to further concentrate the minds of European leaders on getting their defense act together.

MILESTONES

• *Veto power to the prez.* Are local pols beginning to see the light about federal largesse? The US Conference of Mayors recently urged Congress to pass an amendment giving the president single-item veto power over federal appropriations, so that spending items can be blocked without vetoing entire bills. Proponents of the line-item veto contend that it would help presidents to squelch Congress's pork-barrel spending.

• *Semisurprising proposal.* The Semiconductor Industry Association, a US trade group, has called for an end to the 4.2 percent tariff on imported semiconductors. Although imports compete with domestic semiconductors, many of the group's firms import semiconductors made in their own plants abroad, where wages are lower. The money that now goes to paying tariffs ($60 million in 1982) could be spent instead, the trade group says, on research and development and plant automation in this country. The AFL-CIO and other union groups want to retain the tariffs.

• *Tipsy law toppled.* A New York appellate court struck down a state law requiring liquor vendors to mark up their wares by at least 12 percent above wholesale costs. The law was designed to protect specialized liquor stores from competition from discounters.

—ROBERT W. POOLE, JR.,
PAUL GORDON,
AND ERIC MARTI

MAD AT THE MEDIA?

You will probably be even madder after you read *Media Mischief and Misdeeds,* a new book by Reed Irvine, founder and chairman of Accuracy in Media.

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* How the media tried to take the Soviet Union off the hook for the KAL massacre.

* How the media ignored important evidence tying the KGB to the attempted assassination of Pope John Paul II.

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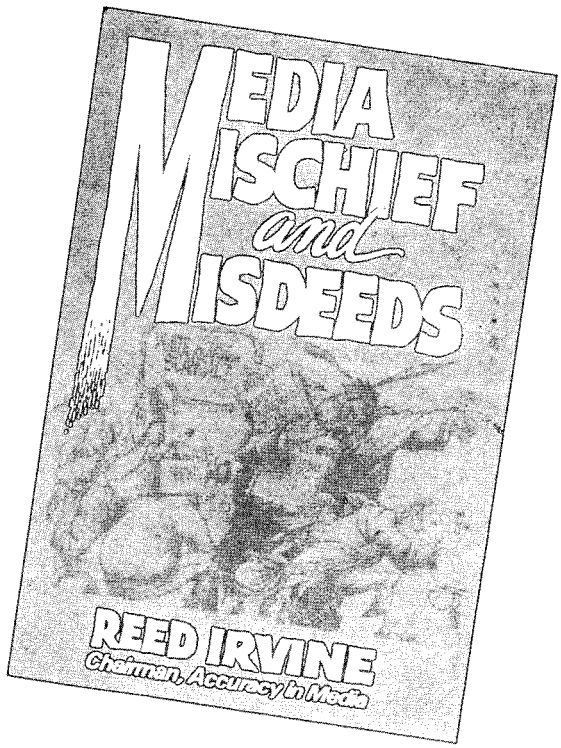

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FIGHTING THE SOVIET IMPERIALISTS: THE MUJAHEDDIN IN AFGHANISTAN

I am drinking tea in a flower garden. Veiled women carrying jars of water on their heads glide silently by. Turbaned men are tending their fields and irrigation ditches. Among the walnut and apple trees and in the marijuana patches, children are laughing and playing. Flowers are planted everywhere, even in the window sill of a nearby home, one wall of which has a huge hole in it fashioned by a Soviet artillery shell. Beautiful white puffy clouds are building over the mountains, and a gorgeous sunset is developing. A caravan of camels plods insouciantly along, bound for the Pakistan border, each burdened with a load of rough-hewn timbers.

The village I am in is nestled in the foothills of the valley of Jaji (georgee-gee), Afghanistan, and in the center of the valley floor below me is a fortress under seige, with 1,200 Soviet and Afghan communist soldiers inside. I am drinking tea in a flower garden, watching a war.

In the mountains above and around me, the incessant bursts of DShK ("Dashaka") machine-gun fire and thuds of mortar rounds are in eerie contrast with the laughter of the playing children, who have become inured and oblivious to the sounds of warfare. Small clouds of dust appear whenever a mortar round lands near the Soviet garrison. Tracer bullets from the Dashakas make fluorescent pink arcs across the sky and are answered by returning Dashaka fire from the fortress. Periodically, a Soviet howitzer cuts loose from within the beleaguered fort, and the shell lands with an ear-shattering blast that makes the entire valley rumble and shudder.

Earlier in the day, I had been in the mountains, at one of the Dashaka positions firing upon the fort. Just five minutes after I left, a howitzer shell scored a direct hit on the position, and everyone was killed.

In the mountains on either side of the valley there are 30 Dashaka emplacements. Such a concentration of precious firepower is directed at the garrison, because it lies directly athwart the main arms-smuggling trail from the Pakistan border to the capital city of Kabul and all of northern Afghanistan. A dense mine field surrounding the fort prevents its being overrun, but a counter-mine field along all access roads prevents its being supplied or rescued by ground. The water supply to the fort has been poisoned. Inside the fort, food and ammunition are running low, and the only way the Soviets can resupply their desperate countrymen is by helicopter.

But the Dashakas in the mountains prevent the helicopters from landing; the choppers must fly very high and attempt to drop the supplies into the fort. More often than not, they miss. I watch as a load carrying dozens of loaves of bread and 300 mortar shells lands in a gully beyond the mine-field perimeter. A small band of turbaned and pajamaed men quickly scurry up to retrieve it.

These scurrying men, the men operating the Dashakas in the mountains, the men with whom I am drinking tea in the garden, are Afghan *mujaheddin*—"holy warriors" fighting a *jihad*, an Islamic holy war, against the Soviet invaders of their country. Often barefoot or in sandals, armed mostly with single-shot bolt-action carbines and a handful of larger weapons, they are the only people in the world who are fighting the Soviet Union face on. Straight up against the awesome might of the Red Army, the Afghan mujaheddin have fought the invading Soviets to a standstill.

But the cost of such a fight to the Afghan people and freedom fighters is reaching genocidal proportions. Since the Soviet invasion of Afghanistan in December 1979, at least 50,000, and perhaps even 100,000, mujaheddin have died in combat. Some 800,000 Afghan civilians—mostly women and children—have been killed, reports Freedom House, the human-rights-monitoring organization. Aerial attacks by Soviet MI-24 HIND helicopter gunships and MiG jet fighters are responsible for the great

Photographs by Jack Wheeler

Poorly armed but highly courageous, Afghanistan's "holy warriors" have refused to bow before the awesome military might of the Soviet Union.

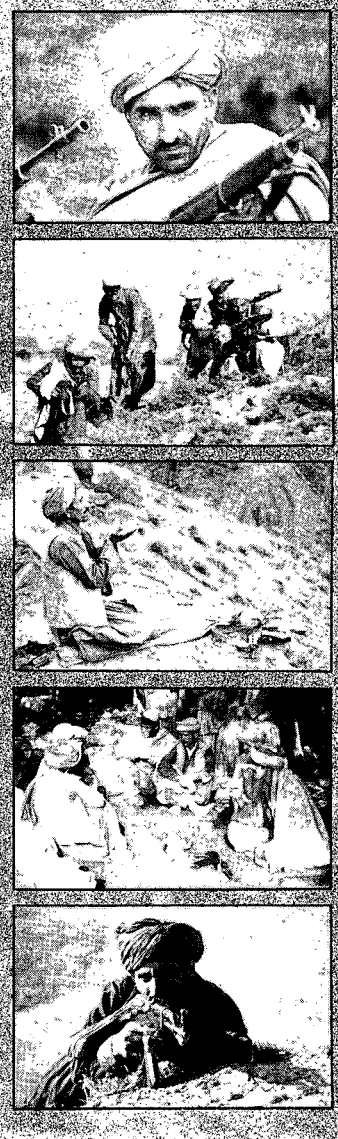
By Jack Wheeler

majority of these deaths. While the villages of Jaji are somewhat protected from air attack by all the Dashakas, most other Afghan villages are not nearly so fortunate.

(Many statistics regarding the Soviets' war on Afghanistan vary widely from source to source, and because of the obvious problems of verification, most are simply estimates. Those that I report throughout this writing seem most credible to me, after having weighed them against my own observations from two trips inside Afghanistan in August 1983 and conversations and interviews with other journalists, up-close observers, contacts within the intelligence communities of several nations, and many mujaheddin.)

According to present estimates, out of a total Afghan population of 15 million, some 3.5 million are refugees in Pakistan; 1.5 million, in Iran. And because the Soviets have bombed virtually all Afghan villages—some 14,000—incinerating their fields and harvests with napalm, probably another one to two million "internal refugees" have been forced to flee their villages to larger cities, particularly to Kabul, the capital. Thus, close to half of the country's people are refugees.

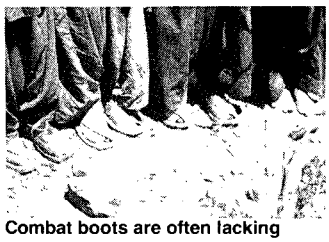
Starvation is becoming widespread as the Soviets pursue their policy of what Princeton University's Louis Dupree, the premier scholar on Afghanistan, has called "migratory genocide." Under this policy, the Soviet invaders go after civilians, not the guerrillas, and thereby prevent the latter from "swimming like fish in the sea" of the rural population—Mao Tse Tung's prerequisite for the survival of a guerrilla army.



Along with fighting their *jihad*, their "holy war," the mujaheddin break for prayers and maintain traditional gestures of hospitality such as offering and drinking tea

They rely on captured weapons

The New Anticolonialism



Combat boots are often lacking

It is perhaps not surprising that, in the struggle to throw off Western colonialism, so many of the Third World's "national liberation movements" have embraced the anticapitalist, anti-Western ideology of Marxist-Leninist socialism. And they often have had the backing— military, economic, and rhetorical—of the Soviet Union.

Today, however, this association is rapidly becoming a relic of the past. What is emerging might be called "the second stage" of post-World War II anticolonialism.

To investigate this new phenomenon of anti-Soviet liberation movements, I went to southwestern Asia, Africa, and Central America, going clandestinely into freedom fighters' territory. Each case was different, but I found a growing rejection of Soviet imperialism throughout the Third World.

There are wars of liberation in eight parts of the Soviet Empire right now—in Nicaragua, Angola, Ethiopia, Mozambique, Afghanistan, Laos, Cambodia, and Vietnam. The emergence of these anti-Soviet armed insurgencies points to the end of Soviet expansionism and the start of its contraction. More and more of the Third World is realizing that Soviet Marxism is a one-way ticket to oppression and poverty. The Soviet Empire may, at last, be on the verge of breaking up.

—J. W.

Moscow, it is often said, cares nothing for Afghans, only for Afghanistan, the physical territory itself—250,000 mountainous and arid square miles (about the size of Texas) landlocked between Iran, Pakistan, and the USSR. Today, Soviet administrators are wholly in charge of every department of the "Afghan government." In fact, Moscow is well on its way toward incorporating Afghanistan within the USSR itself. (Moscow has already evacuated the Wakhan Corridor, in northeast Afghanistan, having turned it into a huge military base.) And the Soviets seem fully willing to slaughter every single man, woman, and child in the entire country, if necessary, in order to do so.

But in trying to subdue Afghanistan, the Soviets may well be playing a game of Russian roulette. Almost 20 years ago, Louis Dupree predicted, "If you want to kill the Soviet Union, get it to try to eat Afghanistan." After going inside the country twice with the mujaheddin, and personally witnessing the spirit and courage of the Afghan people, I think there is a chance he may be proven right.

With a glance at a world map and a perusal of a historical atlas, one can quickly grasp that the Soviet invasion of Afghanistan is the latest move in the Russian-Soviet imperial march toward the Indian Ocean. The next move is Baluchistan, the Baluchi tribal area south of Afghanistan along the Iran-Pakistan border. Soviet agents have been organizing and agitating among the Baluchis for decades—and it is no accident that today some 2,000 Baluchis are students at Afghanistan's Kabul University, where the faculty is primarily Soviet, most of the Afghan teachers having fled the country or joined the mujaheddin.

In the 19th century the land west of the Indus River was "Apache country" for British India, a wild frontier peopled with fiercely independent Moslem tribes, mostly Pathans. A century ago, British readers thrilled to Thomas Mundy's *King of the Khyber Rifles* and Rudyard Kipling's *Barrack Room Ballads*, aware that the heroic struggle between the Pathan *lashkars* (tribal armies) and regiments of the British Raj was part of the "Great Game" between the imperial powers of Czarist Russia and Victorian England. As Russia advanced across Central Asia, violently subduing the formerly sovereign Islamic emirates and khanates—Bukhara in 1866, Samarkand in 1868, Kokand in 1876, Merv in 1884—the mountains of the Hindu Kush, Afghanistan's backbone, became the British Raj's last barrier between the Russians and the plains of India. Sir Thomas Holdich observed of his fellow English at the turn of the century, "We have contributed much to give a national unity to that nebulous community which we call Afghanistan, by drawing a boundary all round it and elevating it into the position of a buffer state between ourselves and Russia."

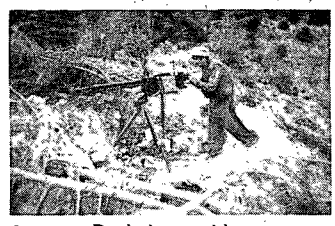
The actual formation of this buffer state, however, was accomplished by a remarkable Pathan prince, Amir Abdur Rahman Khan, behind whom the British threw their support. Beginning as ruler of Kabul in 1880, Abdur Rahman initiated a series of military campaigns that, by 1896, had stitched together a welter of independent ethnic and linguistic groups to create the modern nation-state of Afghanistan.

In 1891, Russia tried to seize the Wakhan region, in northeast Afghanistan (it would finally succeed 90 years later). With an Anglo-Russian war the alternative to a negotiated solution, Britain acknowledged Russian sovereignty to all land north of the Amu Darya (Oxus River, which forms the Soviet-Afghan border), while Russia acknowledged Afghan sovereignty over the Wakhan and areas south of the Amu Darya.

After the 1917 Bolshevik revolution in Russia, Moscow lost that recently acquired sovereignty. Just as Latvia, Lithuania, Estonia, Finland, Belorussia, Ukraine, Georgia, Armenia, and Azerbaijan all proclaimed their political independence from Moscow, so did the khanates of Bukhara and Khiva. Over the next five years, nationalist revolts broke out throughout what had been Russian Turkestan. The most famous of these revolts was Enver Pasha's *basmachi* movement. But with massive and brutal force, the Red Army crushed all of these attempts at liberation from Great Russian–Soviet Communist domination. Enver Pasha was killed in 1922, and although bands of *basmachi* continued fighting into the 1930s, by the middle of the '20s Moscow had again gained control of all of its former territory north of the Oxus River.

The Afghan government in Kabul developed a relationship with the Kremlin of arm's-length civility and peaceful trade. This lasted up to and beyond World War II, during which the Afghans adopted a neutral position of *bi-tarafi* (Dari Afghan for "without sides") regarding the Allies and the Axis powers. *Bi-tarafi* continued to be the official policy throughout the Cold War, as

Camel caravans haul timber



A scarce Dashaka machine gun

the Soviets and the Americans competed in expanding trade and offering foreign aid. Yet King Mohammed Zahir Shah, who had ruled since 1933, while being very careful to remain on good terms with Moscow, was known to be more at ease with the West.

The Soviets had given the king good cause to be wary. In 1946 Moscow forced his government to cede to the USSR an area of 1,000 square miles known as Kushka. And from the end of World War II to 1949, small teams of Soviet *agents provocateurs* slipped across the border: Soviet Tadjiks agitating among Afghan Tadjiks, Soviet Uzbeks among Afghan Uzbeks, and so on. But the Afghans proceeded to turn in their Soviet fellow tribesmen to the police, and the Soviet program came to a halt. The fathers of a great many Afghan Tadjiks, Uzbeks, and Turcomans in northern Afghanistan had been *basmachi* rebels. The tribesmen knew well the brutality of Soviet "benevolence" toward their Moslem brothers to the north. So many refugees, in fact, had been crossing the Oxus into Afghanistan that after World War II the Soviets turned the border into the perimeter of a concentration camp, replete with barbed wire, overlapping searchlights, and machine gun-equipped watchtowers.

Nonetheless, the Afghan government maintained its nonalignment policy of *bitarafi*, accompanied by increased aid from both East and West. A slow course of modernization and political liberalization (eventually with political parties and a bicameral parliament) continued through the '50s and '60s. Then, on July 17, 1973, came the beginning of the end. Mohammad Daoud Khan, first cousin and brother-in-law to King Zahir Shah (still in power after 40 years), and prime minister from 1953 to 1963, staged a coup, overthrew the king, and declared himself founder and president of the Republic of Afghanistan.

While most Afghans paid little attention to politics in Kabul as long as their village life was left pretty much alone, two Soviet-inspired, Kabul-based parties—Khalq ("masses"), founded by Nur Mohammad Taraki in 1965, and Parcham ("flag"), founded by Babrak Karmal—began organizing and agitating in earnest, particularly among the students and government civil service in Kabul. Though the two parties were violently bitter rivals, Moscow forced them to join forces in 1977. In April 1978 a key Parchami leader was murdered (possibly by the KGB, the Soviet spy force), sparking demonstrations in the capital. Taraki's lieutenant, Hafizullah Amin, led a coup in which President Daoud and his family were killed and Taraki was installed as president of the Democratic Republic of Afghanistan.

As Taraki's Khalq party consolidated its power, Parchami leaders, including Karmal, were first banished to East European ambassadorships, then recalled—whereupon, it is reported, they all fled to Moscow. The Taraki regime loudly proclaimed itself a defender of Islam and denied being Communist. But its Marxist-Leninist rhetoric on Radio Afghan was recognized throughout the country as indistinguishable from that of Radio Tashkent and Radio Moscow, and revolts started breaking out.

By March 1979, rebels in the province of Nuristan controlled the upper Kunar Valley and had declared an *azad* ("free") Nuristan. By the summer, spontaneous uprisings were occurring in all 29 provinces of the country, and what are now the six major mujaheddin organizations had emerged: *Mohaz*, led by Pir Sayyid Gailani; *Nijat*, led by Sigbatullah Mojadeddi; the *Hezbis*, originally formed by Gulbuddin Hekmaktyar in Pakistan after Daoud's coup in 1973; Burhanuddin Rabani's *Jamiat*; *Harakat*, of Mohammad Mohamaddi; and a breakaway group of Hezbis led by Maulavi Younis Khalis. (These are the common terms for the main mujaheddin groups, all presently headquartered in Peshawar, Pakistan.)

Meanwhile, Hafizullah Amin (now first minister under President Taraki) had taken charge of putting down the rebels with a demoniacal ferocity. By September 1979, more than half of the 92,000-man Afghan army had either deserted or joined the mujaheddin. Taraki met with Soviet premier Leonid Brezhnev in Moscow; Brezhnev reportedly urged him to get rid of Amin. On or about September 14, there was a shootout in Taraki's office—but when the smoke cleared, it was Taraki, not Amin, with the bullet holes in his chest.

A brutal Marxist ideologue, Amin—educated in America at Columbia and the University of Wisconsin—responded to the rapidly deteriorating situation with increased ruthlessness, torture, and revolutionary cant. The Soviets now faced an extremely dangerous situation: the clear possibility of victory by the mujaheddin and the subsequent emergence of a virulently anti-Soviet government on their borders. The specter of such a government sparking an anti-Communist Islamic fire among Moslems in the Soviet Union—at close to 50 million, the fifth-largest Moslem population in the world—many of whom are blood relations with Afghans, was a nightmare Moscow could not allow to become a reality.

Events had not gone the way the Soviets had planned. They wanted to control Afghanistan via their Afghan proxies and slowly bring it within their orbit. But the mujaheddin uprisings against the Soviet-backed government

Spartan: a mujahed mountain camp

The highly respected Rahmatullah Safi, a former brigadier general in the Imperial Afghan Army, now runs a training camp for mujaheddin

Safi's guerrilla training camp

put the Soviets in a box, and they had to make a decision. With Jimmy Carter in the White House, they predicted that they had nothing to fear from the United States. So they decided to bite the bullet. On Christmas Day of 1979, 5,000 Soviet troops invaded the sovereign country of Afghanistan, with 85,000 more Soviet troops arriving within a month. A special commando team under the orders of Soviet General Viktor Paputin shot its way into the presidential palace in Kabul and executed Amin. Babrak Karmal, the leader of the Parcham communist party in exile in Moscow, was installed as the puppet "president" of the newest colony of the Soviet empire.

Today, although estimates vary, there are at least 130,000 Soviet troops occupying Afghanistan, perhaps as many as 200,000. (Experts closest to the scene in Afghanistan—such as *Christian Science Monitor* correspondent Edward Girardet, BBC reporter Peter Jouvenal, Soviet-military-specialist David Isby, and every mujahed leader in Peshawar, Pakistan—are convinced that the number of 105,000 that the Western press keeps quoting from NATO analysts, who have extrapolated that figure from official Soviet reports, is absurdly low.) While there are as many as a quarter of a million mujaheddin up against the Soviets, perhaps no more than 90,000 of them are actually fighting at any given moment, because they are short of arms and ammunition.

I had been to Afghanistan twice before, in 1963 and again in 1973, just after Daoud's coup. In wandering alone around the country, I was taken with its peaceful and exotic beauty, from hidden valleys and villages in the glacier-strewn Hindu Kush and Koh-i-Baba mountains to the colossal statues of Buddha carved 1,000 years ago into the cliffs of Bamian and the lapis-lazuli blue lakes at Band-i-mir. Once I hitched a ride with some US embassy people from Kabul through the Khyber Pass to Peshawar, Pakistan. As we were trundling down the paved highway toward Jalalabad and the Khyber, I remember looking off to the right and marveling at the brooding mountains that seemed to extend endlessly into the barrenness. I could not have known then that someday, to get back into Afghanistan, I would have to walk across those desolate mountains.

To enter Afghanistan with the mujaheddin you start in Peshawar. Its streets are a spectacle straight out of an Indiana Jones movie: ancient buses encrusted with sheets of embossed chrome; lurching British-made Bedford trucks bedecked with multicolor painted images and ornately carved wooden doors; horse carts with veiled passengers; hand-pushed flat-bed carts loaded with goods and produce; water buffalo hauling ox-carts piled high with hay; butchers lugging around freshly slaughtered sheep or cattle carcasses; a maelstrom of people from every tribe in Central Asia, many with bandoliers and old muskets or carbines slung over their shoulders; countless shops and tiny stalls stocked with everything imaginable, from household goods to hashish; swirling dust, heat and humidity of Hadean proportions—and at least 15 billion flies.

You charge through all of this in a rickshaw motor-scooter taxi gussied up with stripes of colored tape, dozens of bells and tiny mirrors, glittering tassles, kaleidoscopic designs in a rainbow of colors made with patches of plastic, and gaudy paintings on the back—mostly of some crazed, snarling, heavily-mustachioed, gun-waving bandit type so popular in Pakistani action flicks. Every rickshaw driver in Peshawar knows where the mujaheddin headquarters are.

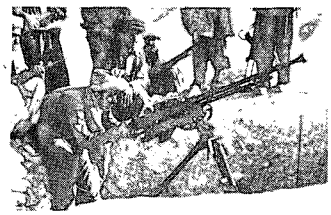
After you have established your credibility with the wary guerrillas, you are invited to "go inside" Afghanistan. After a trip to the bazaar to select appropriate Afghan garb to wear, and a last meal of chicken shashlik at Dean's Hotel, a nondescript jeep comes by to pick you up. Inside the jeep are the three deadliest looking men you have ever seen in your life. They are your guides. They will take you secretly across the border so that you can see for yourself what it is like to fight a holy war against the army of the Soviet Union.

I went inside the first time with mujaheddin from Pir Sayyhid Gailani's Mohaz organization. We drove through the arms-smuggling depot of Darra, over the Kohat Pass, and sneaked past numerous Pakistani police check points to arrive some nine hours later at Wana, a mudhole in the lost deserts of southern Waziristan, still inside Pakistan but close to the Afghan border. The jeep left us off to return to Peshawar, so the next morning we hitched a ride in the back of a truck, filled with sacks of wheat and scowling Waziri tribesmen, that went far up into the mountains and dropped us off at a mujahed encampment near the Pakistani border town of Angur Ada.

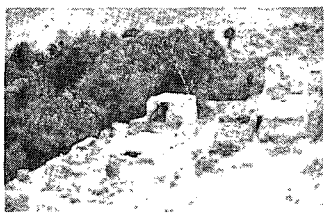
Commander Maulavi Hazrat Shah immediately bade us welcome (although he had no advance warning of our arrival), *nan* (Afghan bread) and green tea were quickly proffered, and within an hour a captured Soviet URAL truck was gassed up and at our disposal. With a load of flour and the maulavi (an Islamic title indicating a rank within the faith) and a contingent of his men in the back, we were off.

I had not expected such luxury—driving into Afghanistan in a captured Soviet truck is definitely classy. I also was not prepared for the *complete* lack of any government presence—Pakistani, Afghan, or Soviet—at the border. The mountains drop away at Angur Ada's feet into the Barmal Valley of Afghanistan. While the town is some yards inside Pakistan, as we drove out of it and down into the valley, there was simply no indication of a border of any kind.

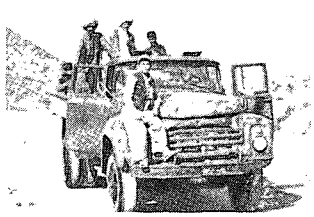
We drove hundreds of kilometers in-



Learning to repel Soviet attacks



After a Soviet attack



A captured Afghan army truck

Above all, a religious struggle

side Afghanistan—through dry but fertile valleys covered with ploughed fields and corn fields and dotted with well-tended adobe fortress-homes and castles. I even saw a small Ford tractor or two. We slept and ate at *chaisanas* (tea houses), drove up to and beyond the Soviet garrison at Urgun, stayed at villages and mujahed encampments nestled in pine and cedar forests, and ran into thousands of armed mujaheddin, in groups of a half-dozen to several hundred.

What I saw in Paktia province is mirrored throughout the rest of the country: *there is no central government presence in Afghanistan.* The uniformed government officials that were a familiar sight during my 1963 and 1973 travels through Afghanistan are today nowhere to be seen. The Soviets and whatever Afghan army recruits they can round up at any given time before they desert (around 30,000) exert daytime control over most portions of the major cities, such as Herat, Mazar-i-Sharif, Kandahar, Ghazni, and Kabul. Elsewhere they are hunkered down in isolated and surrounded garrisons like Urgun or Jaji or at big air bases like Bagram and Shindand. The mujaheddin control 90 percent of the countryside, in which there is only traditional tribal government.

The Soviets, however, control 90 percent of the air. Though the mujaheddin desperately need money, food, medicines, vitamins, shoes, doctors and paramedics, walkie-talkies, binoculars, canteens, knapsacks, light arms, and ammunition, more than anything else they need antiaircraft weapons. They need tens of thousands of Kalashnikovs, grenade launchers, mines, and millions of rounds of ammo. But what is absolutely vital is a massive supply, in the thousands, of antiaircraft weapons to take the Soviet gunships out of the air.

The Soviet MI-24 HIND helicopter gunship (depicted on the cover of this issue) has four rocket pods, each with 32 rockets, a laser-sighted rotary cannon firing 1,000 rounds a minute, and four napalm or high-explosive bombs. It is heavily armored, particularly on its belly. The three men of its crew sit in a bullet-proof titanium cockpit. It is one of the most lethal war machines on earth, capable of annihilating an entire village in a matter of seconds. Except for those rare places where there are enough antiaircraft guns, as in Jaji, Afghans are at the mercy of the death machines.

This fact was bitterly brought home to me when I learned that a village I had stayed at in the mountains above Urgun—where I had played with the local children and given them a pocket frisbee—was later wiped out by a gunship attack. Most, if not all, of the children whose picture you see on page 28 were killed.

The second time I went inside I was with a group of mujaheddin from the Harakat and Jamiat organizations. Again there was the jeep ride past the infuriating Pak check points. But this time we went up the Kurram Valley to the Pakistani border town of Tara Mangal, the principal point from which arms are smuggled to mujaheddin in central and northern Afghanistan.

(I learned from mujahed sources that Arab and Pakistani connections in China purchase matériel at or near cost, mostly Chinese copies of Soviet weapons. [The Chinese government also donates some arms to the mujaheddin.] Chinese trucks take the arms over the China-Pakistan border, via the Karakorum Highway, down to the city of Lahore. There the wares are transferred to Pak trucks and hauled up to Tara Mangal, where they are distributed. At Tara Mangal I saw three huge truckloads of arms uncrated and put on the backs of mules and donkeys for the trip into Afghanistan.)

No fancy captured truck now—this time it was one foot after the other. At the actual border pass, a lone Pak policeman was tolerated by the tribesmen flowing back and forth. He bothered no one. Again, on the Afghan side there was no government presence, just the burned-out hulk of a Soviet armored personnel carrier—evidence of a failed Soviet assault.

The Pak-Afghan border, laid down by the British in 1893 as the famous "Durand Line," cuts arbitrarily across Pathan and other tribal areas and has always been a sieve. The Pakistan government exercises only nominal control in the whole border area, the Soviet-Afghan "government" none at all on "their" side. At only two points along the entire border do and can the Soviets maintain a presence: where the Quetta-Kandahar road crosses the border at Spin Buldak, in southeast Afghanistan, and at the Khyber Pass itself.

Afghanistan is not flat. The 9,000-foot border pass was only the beginning. We hiked up one crag and down into a gorge or valley, then up again, down again, over and over again. There were five of us: Hossein, a mujahed who acted as my interpreter; Commander Sangeen; Sangeen's two lieutenants, Gul-jan and Rahin-jan; and myself. We were on a main trail from Kabul and points north, and groups of refugees were continually going by us, fleeing into Pakistan. At every *chaisana*, there were mujaheddin from various guerrilla groups, drinking tea and eating *nan* amidst the swarms of flies, on their way to their respective battle fronts.

Throughout this trek, one experience was depressingly repeated. Upon coming to the top of a pass, a beautiful valley would appear beneath us: green terraces of corn, orchards and shade trees, picturesque villages—a picture post card. That was at a distance. Close up, we would discover instead a ghost valley: everything shattered and destroyed by the *Shuravi* (the mujaheddin's word for the Soviet invaders); skeletons of homes and villages bombed out; fields turning to weeds; untended orchards of mulberry, apple, and apricot trees. The villages were abandoned and uninhabited save for a few remaining families, especially old people, and an occasional tea house.

As we neared Kabul, I got used to the recurring sound of helicopters flying between Kabul and Jalalabad. My escorts pointed out that there was no danger—the choppers flew very high to avoid Dashaka fire. Once, we were crossing a particularly barren spot when two MiG jet fighters came screaming over the hills in front of us. Luckily, it was late in the day and the jets kept going, their Soviet pilots headed, no doubt, for a cool beer at the Kabul air base.

Finally we reached the encampment of a famous commander in the Kabul area, Wali Khan. Wali Khan, who is with the Mohaz and Harakat mujaheddin, had managed to acquire an official blue Afghan government truck. After an ex-

The setting of the *jihad*

Guns are smuggled in

Flatbed trucks haul everything

Their village was later destroyed

tension of traditional Afghan hospitality with tea and *nan*, Wali Khan asked me, "How would you like to see Kabul?" Soon I was bouncing along the dusty Sorubi power-dam road that leads to the capital, with a contingent of Wali Khan's men dressed in captured Afghan army uniforms.

We entered Kabul Valley and stopped on the road so that I could view a Soviet garrison not far away. Then we drove to the outskirts of Kabul and parked on a slight rise overlooking the most infamous place in Afghanistan, Pol-i-Charky prison, holding some 22,000 political prisoners. Before the curfew checkpoints started appearing we hot-footed it back to the safety of Wali Khan's camp.

Wali Khan had gotten word from his spies in Kabul that the Soviets were planning an offensive in his area, so I spent the next week with him traveling by truck, foot, and horseback, as he coordinated the preparations at a number of mujahed camps and positions.

Intelligent and educated (at Kabul University), Wali Khan possesses a wisdom that is beyond his 34 years. Joining the *jihad* during Taraki's reign, he aligned himself with Gailani's Mohaz group of mujaheddin because Gailani, in addition to being passionately anti-Soviet and anti-Communist (and his family revered as descending from the family of the prophet Mohammed), is a true Afghan nationalist.

The heads of Mohaz, Harakat, and Nijat, while all devout and respected Islamic leaders, have a much stronger element of Afghan nationalism in their motivation for fighting the *Shuravi* than do the leaders of the Jamiat, Younis Khalis, and Hezb groups of mujaheddin, who are motivated mostly by purely religious reasons.

This is why the Western media have dubbed the first three groups "moderates," the latter three "fundamentalists." Nonetheless, the rivalry that existed between them has rapidly been giving way to an increased cooperation—at least inside. In fact, those mujaheddin actually fighting inside Afghanistan are viewing the political organizations in Peshawar as increasingly irrelevant. More and more, mujaheddin of whatever affiliation—Mohaz, Jamiat, etc.—are rallying around particular regional commanders who have proven their capacity to lead and fight.

The most famous of all these regional commanders is the Jamiat mujahed Ahmad Shah Massoud, operating in the Panjsher Valley, north of Kabul. His record of repulsing seven Soviet offensives is unmatched. But as brilliant and capable as Massoud is, I was to learn that the *jihad* has produced others of almost equal ability: Zabiullah in Balkh, Mohammed Ismail in Herat, Amin Wardak in Wardak, Qali Baba in Ghazni, Jalal-ud-Din in Ningrahar and northern Paktia, Shaf-i-Ollah in the Koh-i-Safi between Kabul and Panjsher, Abdul Haq and Wali Khan in Kabul.

As these and other commanders strengthen their personal leadership, their affiliations with the various mujaheddin organizations are becoming more and more tenuous. The fly in the cooperative ointment, however, remains the Hezbis, led by Gulbiddin Hekmaktyar. Virtually all the fighting between groups of mujaheddin reported in the Western media is between the Hezbis and others.

An interview with the notorious Gulbiddin is an intense experience. Slender, about five-seven in height, and soft-spoken, he is smooth and articulate. He sees himself and his followers as the only true holy warriors. Those who don't join him, he claims, are traitors to the *jihad*. Gulbiddin is an admirer of the Ayatollah Khomeini of Iran (although, like the majority of Afghans, Gulbiddin is Sunni Moslem and could never be actually affiliated with the Shiite Khomeini). And like the Iranian ruler, Gulbiddin sees Western culture and values (including those of democracy) as social poison and America as the Great Satan of the world. He is an Islamic fanatic intent on establishing an Islamic theocracy (a "pure" Islam, as he puts it) in Afghanistan.

At one time, Gulbiddin's Hezbis were the strongest of all mujahed groups. But many Hezbis inside Afghanistan are refusing to fight other mujaheddin who won't join them and are instead joining other groups. Most observers I talked to regard Gulbiddin's growing loss of followers and strength as a positive development in the mujaheddin's cause. Yet because Gulbiddin remains an important figure among the political organizations in Peshawar, few will speak out against him for the record.

"Yes, the mujaheddin are coming together more and more now," Commander Wali Khan agreed. "This gives me hope. But what we need now, more than ever, is not simply more weapons and supplies, but *training*—professional military training in strategy, tactics, discipline, and weapons handling. Too many of my men, too many of all mujaheddin, suffer from the delusion that their untrained native fighting ability and faith in Islam will ensure victory. The average mujahed thinks he is naturally born as one of the world's great guerrilla fighters—but the honest truth is that he is a magnificently courageous and fearless amateur.

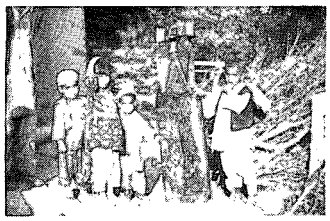
"Yet we are learning—learning how to better fight the *Shuravi*, learning how to handle modern weapons. Now is the time for professional training and more and better weapons."

"Like Redeyes?" I asked, referring to hand-held, shoulder-launched, heat-seeking missiles.

"Yes! Like Redeyes. With Redeyes and enough antiaircraft machine guns and cannons, we could protect our villages and stop the hemorrhaging of refugees—perhaps even make it safe for many of them to return. We could prevent our harvests from being napalmed. We could attack in the daytime. We could go on the *offensive* against the *Shuravi*. We could starve out most every garrison in the country, as they couldn't be supplied by air. If we could take those gunships out of the air, it would make an indescribable difference, put the *Shuravi* on the ground where we can beat them, make this war so much more costly for them."

I asked Wali Khan his opinion of the Peshawar-based chief military advisor to the Mohaz, Harakat, and Nijat mujaheddin, Brig. Gen. (in the Imperial Afghan Army under King Zahir Shah) Rahmatullah Safi. I had found Safi to be the single most impressive individual I had met among the Afghan freedom fighters.

"Ah...Safi." Wali Khan smiled with warm affection. "Safi is the best. He is also my dear friend. Safi has had commando training in Russia, England, and America. He speaks fluent Russian and



A Soviet bomb, luckily unexploded

Nabib, an eight-year-old boy, lost his hands when he picked up a "toy" dropped from a Soviet helicopter

A common sight among Afghans

knows the mind of the *Shuravi*. He speaks English as well as you do. It is so frustrating for him, you know, that his ideas are difficult to get through to the mujahed leaders, whose backgrounds are in religion, not the military. Further, there is so little money available for him to implement his ideas."

"Are you familiar with his commando training school?"

"Several of my men are attending his school at this moment. His plan to train men to make napalm and bombs out of things you can buy in the Kabul bazaar—and how to make Kabul a very unhealthy place for *Shuravi* officers—could be vital to our struggle. But he has to feed his men on three rupees a day [about 23 cents]. He desperately needs more support. Radio Moscow is constantly saying the mujaheddin are 'bandits' supported by the CIA. We, of course, don't know what a CIA agent looks like and have never seen any support—but I wish it did exist, and some of it could go to Safi."

We hiked up to the area of Jigdalik and spent a day talking to Hassan Khan, a commander with the Harakat mujaheddin, and Anwar, the leader of all mujaheddin in Logar province, to the south and east of Kabul. From high up on a rocky ledge overlooking the valley, I took in the beautiful sight below—pretty villages and green trees and fields. Before the 1979 invasion, more than 2,000 families lived here. Now, there were less than 50.

Hassan Khan and Anwar had just captured an agent of the Karmal government posing as a mujahed named Nasrullah. The Soviets had paid him several thousand dollars (in Afghani rupees) to spy on the guerrillas.

There were several hundred Karmal agents, I was told, among the mujaheddin. (Of course, there are many more mujahed spies among the Karmal army and government.) The Soviets pay these spies well to join the *Khad* (Karmal secret police), my mujahed hosts informed me. But in addition to those spies who do it for the money, there might, I suggested, be educated or semieducated Afghan youths taken in by Marxist rhetoric or enamored of the power of the Soviet Union and its willingness to use it. They see the Soviet Union as the wave of the future, the mujaheddin as ignorant reactionaries resisting the Soviet attempt to move Afghanistan out of the past, trying to impose a parochial religious tyranny dominated by illiterate fanatic mullahs. Such youths could easily close their eyes to the Soviet barbarism and genocide perpetrated upon their fellow citizens, as many Germans did with the Nazis.

Yes, my mujahed hosts agreed. The Russians are not stupid. They have their propaganda, and Quislings can be found in any society. Thousands of Afghan students are being educated in the Soviet Union—but much of this propagandistic effort is backfiring because of overt Great Russian racism toward Central Asians. The other side of the coin is the high desertion rate in the Karmal (Afghan) army and the Soviets' complete failure to turn it into a reliable fighting force. And while the morale of the mujaheddin remains as high and determined as ever, the morale of the average Soviet soldier is collapsing.

The mujaheddin I spoke to all confirmed the reports I had heard concerning morale among Soviet troops in Afghanistan. The typical Soviet soldier is a conscript and told he is going to Afghanistan to protect the socialist progressive Afghan government and fraternal Soviet-loving Afghan people against murderous, child-raping CIA and Chinese mercenaries and bandits. But when he gets to Afghanistan he never sees a single white- or yellow-skinned mercenary, and every Afghan he meets wants to castrate him.

Amoebic dysentery is pandemic, and diseases like influenza are rampant where he is based. The food is so insufficent that he sometimes must beg for or steal it from half-starved Afghan villagers. He and all his comrades get stoned on hash, obtained by trading with Karmal troops (and raised and sold to them by mujaheddin), as much and as often as they can.

But rebellion against authority is not a characteristic of the Russian psyche. So the conscript rarely is other than meekly obedient to his superior officers—professionals under no illusions, who know that service in Afghanistan will look good in their career records.

Before I left Jigdalik, Anwar and Hassan Khan took Wali Khan and me on a tour of the three Dashaka gun positions overlooking the valley. Before they'd gotten the Dashakas a month earlier, the gunships were flying low, bombing the villages almost every day. The day the mujaheddin acquired and set up their Dashakas, they fired tracer bullets at an attacking gunship and a MiG on a strafing run. Both fled at the sight of the bullets' fluorescent trails, and from that day on there hadn't been any Soviet aircraft in the sky over the whole area of seven villages.

It was with a hope that our paths would cross again that I bid Wali Khan goodbye. As I climbed down off the ledge above Jigdalik, he waved and called out "Mordakum Shuravi" ("Death to the Soviets"). Sangeen, Gul-jan, Rahin-jan, Hossein, and I headed for the battle at Jaji.

It is morning now, sunrise at Jaji. I am peering over a shallow protective trench on the top of a hill overlooking the valley, the rising sun at my back. It is a cloudless day, and the sun is spreading over the crazy quilt of field patches on the valley floor. Men are going out to work their fields, and some sheep are grazing nearby.

The entire valley is reverberating from the sounds of two MiGs and a "Frogfoot" fighter as they fly in from the northwest to make their runs on the mujaheddin positions. The Dashakas are pumping at them from a half-dozen of the 30 emplacements on both valley walls. But the jets are too fast and too high. The valley shudders, the hill I am on with it. Napalm bombs fall with enormous thuds, and the mountains to my left burst into spurting balls of fire.

The jets fly off to the north, and it is quiet again. A pall of smoke rises over the mountains, and a stream of Dashaka fire rains down on the garrison. I walk with Gulab-jan, subcommander under Adam Khel, overall commander and tribal chief of the valley, down to and across the valley floor to the tiny village of Mir Khel, perched on the edge of the mine field surrounding the garrison. Inside an adobe castle-like home I meet a small group of mujaheddin who are planning a rocket attack on the garrison for that night.

Outside, children are racing around playing hide and seek in the village enclosure. I think of a child, an 8-year-old boy I met at the Red Cross hospital in Peshawar. His name was Nabib, and he told me he had been playing at his village in Afghanistan when a Soviet helicopter flew over and dropped some brightly colored things. He and his playmates rushed over to see what they were. They looked like painted toys—pens, red wagons, birds. Nabib picked one up, and it blew off his hands.

There are few moral issues in this often-confusing world as sharp and clear-cut as Afghanistan. The Afghans—exceptions like Gulbiddin notwithstanding—are not Moslem fanatics. They are a devout people, believing deeply in their religion and the Islamic way of life. They have attacked nobody and are a threat to nobody. They simply want to be left alone. Yet they are being systematically exterminated for the cause of Soviet imperialism.

If you are wondering about now whether the United States and the Saudis and other oil-rich Arab Moslems are helping the mujaheddin, the answer is, they are—but with perverse results. Believe it or not, the US government, through the CIA, gives well over *$100 million a year* to the mujaheddin. The Saudis are giving *another $100 million.* Persian Gulf Arabs and others are kicking in an additional $50 million, for a yearly total of *$250 million.* But the mujaheddin never get it.

The Pakistan government insists that all aid for the mujaheddin be given to it first. So the CIA, and to a lesser extent, the Saudis, never deal directly with the Afghan guerrillas. The Pakistan government is in charge of spending the money and providing the mujaheddin with what it sees fit—with a "small commission" of, I estimate, some 80 percent.

Further, the substantial part of what the Paks do extend to the mujaheddin goes to their former agent, the Moslem fanatic Gulbiddin, and his cohort, "Professor" Sayyaf, the treasurer of the "fundamentalist" coalition in Peshawar. Administrative costs incurred by the mujahed offices in Peshawar somehow manage to soak up much of the available money as well. For many of those "mujahed" functionaries in Pakistan, the good life on easy street in Peshawar's fashionable suburbs is becoming far preferable to dodging bullets in a war-wracked mountain hell-hole.

All told, after all the skimming and graft, little more than 5 percent of the $250 million is actually spent on the mujaheddin inside fighting the Red Army, who desperately lack shoes, food, medicines, and weapons. The precise accuracy of these numbers cannot be firmly established, so to quibble about them is a red herring. What is beyond doubt to every eyewitness of the situation I know is that a lot of money is being given to help the mujaheddin, and the mujaheddin fighting inside are not getting it. In Peshawar today, a Lee Enfield rifle costs $800, a Kalashnikov $1,500, a Dashaka $8,000. For less than $1 million you can buy more than 100 Dashakas and requisite quantities of ammunition. Afghanistan should be flooded with Dashakas—and it isn't.

Embarrassed by this scandal, the CIA has recently launched a major disinformation campaign directed at those in Congress and the Reagan administration who are pressuring it to do a better job with its covert aid program for the Afghans. According to sources in the administration and the intelligence community, whose identities I cannot reveal because of the sensitive nature of the information they have given me, the story of a CIA "pipeline" of arms for the mujaheddin "invisible" to the Pakistanis is a hoax. Media reports of this secret pipeline, such as *Time*'s mid-June article called "Caravans in the Moonlight," have been planted by an embarrassed CIA, my sources told me.

Those mujahed leaders fighting inside Afghanistan who have figured out how the aid system works suggest that their would-be benefactors could bypass the corruption in Pakistan by supplying cash directly to the regional commanders, whose agents can buy supplies. Likewise, arms and ammunition could be air-dropped directly to the main regional commanders.

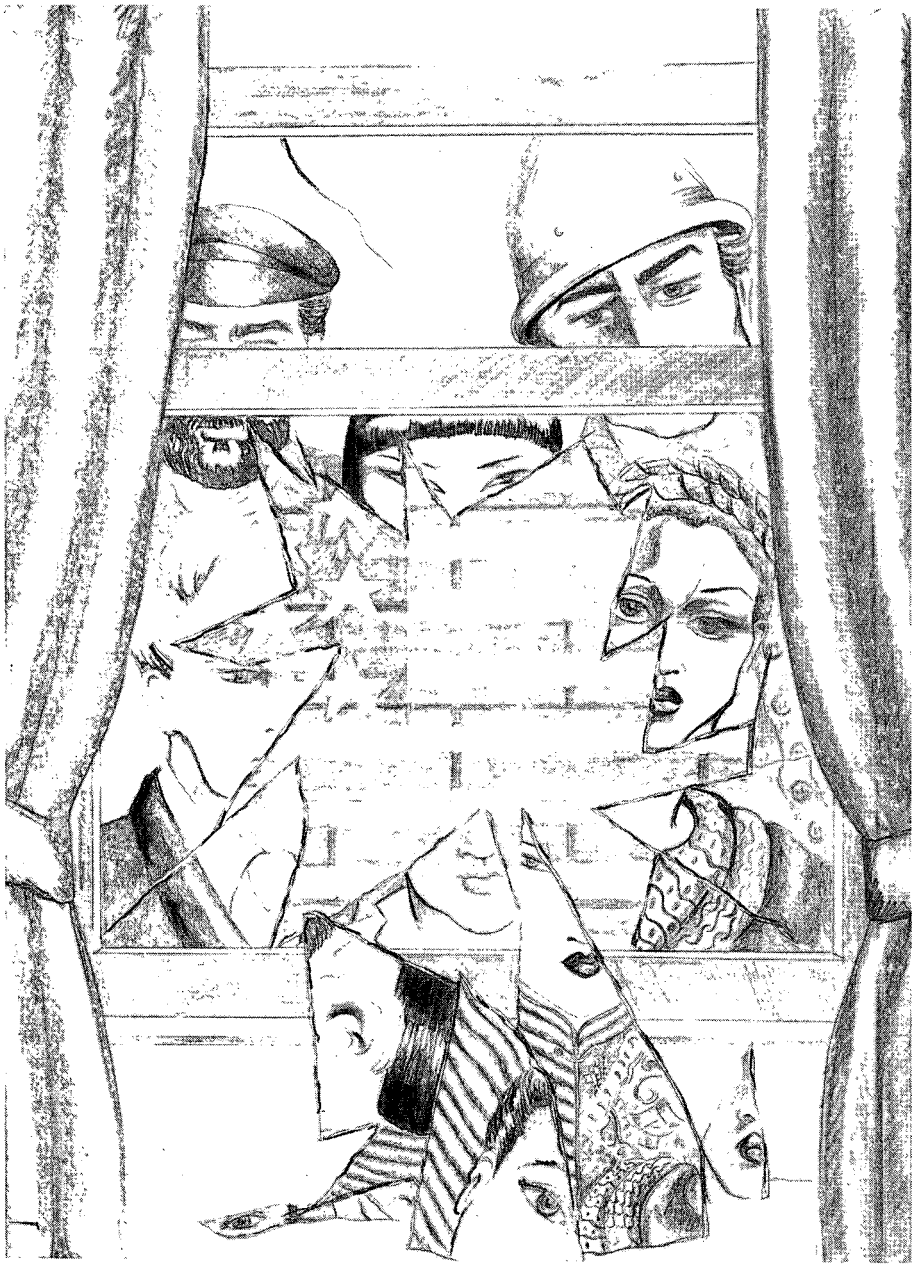
But if the mujaheddin are to succeed in their *jihad*, they will also have to get adequate professional training. Not only would they have to secure sufficient support for Safi, but they would need additional personnel to be trained in a neutral country, who could then return and train more mujaheddin inside.

At some time, too, the mujaheddin will have to grasp that victory for them ultimately lies to the north. In their 50 million fellow Soviet Moslems across the Amu Darya, they have allies of enormous potential. Only when they learn how to bring their *jihad* into Soviet Tadjikistan and Soviet Uzbekistan will the mujaheddin have a bargaining chip worth enough to force the Soviets into a negotiated withdrawal from their country. (See my article "How to Dismantle the Soviet Empire," REASON, Nov. 1983.)

Still, despite the mujaheddin's limited resources, the events in Afghanistan provoke this question: if a bunch of guys in bolt-action rifles and sandals can fight off the Soviet Union, must anyone fear the Red boogeyman any longer? If the Soviets can't defeat the Afghans, could they probably take on, say, 250 million Western Europeans?

Why the Afghans are struggling to turn back the Soviet invaders is made painfully clear by the picture of the little boy with stumps at the end of his arms (on page 29). It was a Soviet-made butterfly bomb that did this. You don't make bombs that look like toys unless you want this to happen. Murdering and terrorizing as many innocent men, women, and children as possible into becoming refugees is the Kremlin's consciously pursued policy in Afghanistan. As you look at this picture, you cannot escape this conclusion: *the Soviets wanted this to happen.* That is the nature of the enemy Afghanistan's holy warriors face. ◧

Jack Wheeler holds a Ph.D. in philosophy. This article is the third in a series on Third World anti-Soviet insurgencies (reports on UNITA in Angola and the Contras in Nicaragua appeared in the April and June-July issues, respectively). In August, Jack Wheeler returned to Afghanistan, once again to "go inside" with the mujaheddin. This article is a project of the Reason Foundation Investigative Journalism Fund.



Two Hands, One Mouth

Can we afford to let in more immigrants? *Can we afford not to?*

By Joseph P. Martino

Until Congress took up the Simpson-Mazzoli immigration reform bill this year, it had been some 32 years since the legislature had made any fundamental changes in immigration policy. Members of Congress had long considered immigration subcommittees among their most-sedate and least-demanding assignments. No longer. Immigration policy has come close to the top of the political agenda.

Before versions of the Simpson-Mazzoli bill passed both houses in July, there was much debate about whether the measure would stanch the flow of illegal immigrants into the United States. There was very little debate about the underlying issue—whether the stream of immigrants is really a threat to the welfare of existing citizens of the country. It is in fact a very shaky premise, but it is widely held and is sure to haunt ongoing policy debates about immigration.

Practically every problem we have in the United States is said to be either created or aggravated by immigration. Colorado Governor Richard D. Lamm has probably made the case as eloquently as anyone. Writing in the October 1983 issue of the *Futurist*, he admitted that "when the United States was a vast empty frontier, it needed immigrants to people an empty continent." But he admonished his readers that "those days are gone, never to return....The America of the empty frontier has been replaced by an America of 9.5% unemployment."

The arithmetic seems simple. For every immigrant who enters the country and takes a job, there is one less job for an American who was already here. When the United States has nearly one worker in 10 looking for a job already, it certainly doesn't need to add to the problem. And if the immigrant doesn't displace an existing worker by taking a job, he ends up on welfare and becomes a burden to those who have jobs and pay taxes.

What about America's role as a refuge for those in need elsewhere? What about

Illustration by Laura Main

Emma Lazarus's "golden door"? Lamm argued that the country can no longer afford to play that role. "The United States is no longer a frontier; our humanity can no longer be boundless," he declared. "Our increasingly scarce resources and our own multiple economic problems are already substantial enough without encouraging the entrance of many millions of new immigrants who would compound these problems and diminish our standard of living significantly."

The theme of limited resources is a recurring one in such discussions of immigration's threat. The "limits to growth" school that was prominent a decade ago is still sentient despite the end of "the energy crisis." Its advocates still raise the alarm about diminishing resources. Paul Ehrlich of *The Population Bomb* (1968) warns that even though the US birth rate has dropped below the replacement level, we're still not home free—immigration, particularly illegal immigration, is still increasing the country's population. And this will inevitably lead to more-rapid depletion of the country's natural resources. His prediction is echoed by environmentalist Garrett Hardin and scores of others.

What is to be done? In the December 1982 issue of the *Futurist*, Lamm argued that America will have to stop accepting any more immigrants at all. His proposal was in the form of a speech to be delivered to the United Nations on July 4 in the year 2000 by a deputy secretary of state, explaining why the United States had closed its borders.

Part of the problem was the mushrooming of population and unemployment in Mexico. "In 1980, Mexico had a labor force of 19 million people, of whom 50% were unemployed or seriously underemployed," reports the fictitious deputy secretary at the turn of the century. "Despite its oil wealth, Mexico could not provide jobs for all its unemployed."

Of course, Mexico is not singled out as the only problem country. The rest of the developing world is forecast by Lamm to do just as poorly by the year 2000. "In 1980, the International Labor Organization estimated that the developing world would have to generate between 600 and 700 million new jobs over the next 20 years just to keep unemployment from rising," the speaker notes. "It just didn't happen. With so much capital spent just to feed and minimally house exploding populations, only 400 to 450 million new jobs have been created."

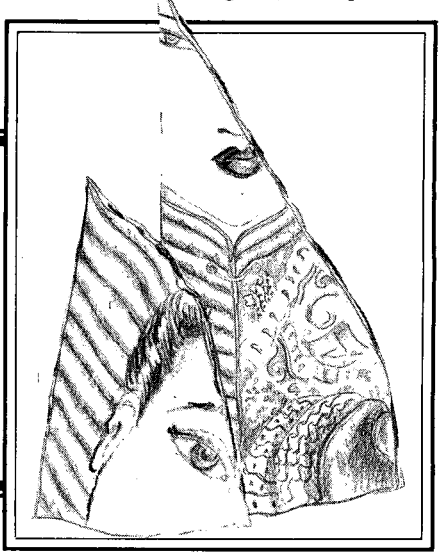
Lamm's deputy secretary, not surprisingly, sings the theme of resource depletion, too. "Last year's (1999's) embargo on food exports from the United States was only an admission of the inevitable. After a few years of low rainfall, we were growing only enough food to feed our own 300 million citizens."

But people who are concerned about immigration often worry that it is a threat not only to our jobs and well-being but to our freedom itself. As Lamm voiced this fear in his 1983 article, "Democracy has always prospered on growth. The pie usually grew and fostered social and political expectations of progress. The legitimacy of government has not been based so much on justice or religious freedom as on material advancement. Everyone could and did have a better tomorrow. If these conditions disappear, perhaps the legitimacy of our governmental structure will also disappear."

For all these reasons, the US government is urged to further limit or even end immigration. But are they good reasons? If a ceiling is to be placed on legal immigration, it ought to be established for the right reasons. Even if a particular level of immigration were appropriate in the short run, setting it for the wrong reasons would mean that we would probably suffer in the long run, since we would be unlikely to change when change is called for by the right reasons. So it's worth examining the reasons being given for limiting or ending immigration. It's also worth looking at some of the reasons we might even want to *increase* the level of legal immigration.

To start with, the concern about immigrants taking jobs and the concern about immigrants accelerating the depletion of our natural resources contradict each other. They can't both be valid.

Consider that resources such as iron ore and timber can't be used "as is." Before they can be consumed, they must be transformed into products. The transformation inevitably involves human labor, which is to say it provides jobs. So if an immigrant actually takes a job that would have been held by a non-immigrant worker, he cannot at the same time increase the depletion of our resources. An immigrant can speed the depletion of our natural resources only by taking a job that didn't exist before he arrived.



But the notion of the displacement of workers itself bears more scrutiny. Abraham Lincoln once remarked that every person is created with two hands and one mouth, and he presumed that the Creator intended those two hands to feed that one mouth. Lincoln was speaking of slavery and objecting to the slaveowner appropriating the product of the slave's labor, but his observation is relevant to

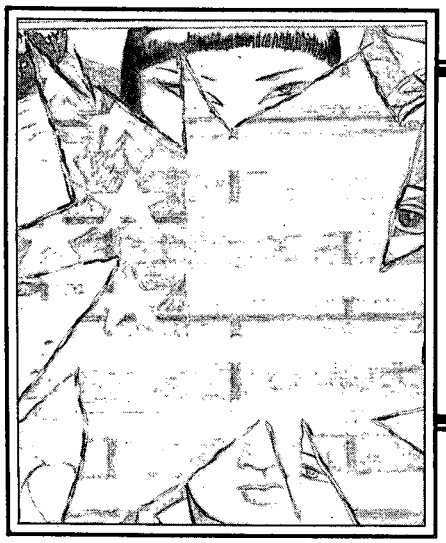
People who are concerned about immigration often worry that it is a threat not only to our jobs but to our freedom.

the issue of immigrants and unemployment.

Many people look upon jobs as something produced by an economy, in the same way an economy produces steel. This is the idea that underlies Lamm's "forecast" that the world economy will "generate" only 450 million jobs when 700 million will be needed.

We can get a better perspective on the "generation of jobs" if we consider a typical primitive subsistence economy. One of the most prominent features of such an economy is that everyone has a job—even the children and the old folks. For the able-bodied adults, it's a back-breaking, dawn-to-dusk job. "Unemployment" is unheard of. Yet in no sense has the *economy* provided those jobs. Every person in that economy uses his two hands to provide the food for his mouth (and the clothing on his back and the roof over his head). Each person's *existence* generates a demand for sustenance; that demand for sustenance in turn provides work for the person. The match is perfect: two hands producing and one mouth consuming.

What has this to do with immigration? Just as nearly every person comes into the world with two hands and one mouth, nearly every immigrant arrives in the country equipped the same way. The



match is still perfect. An immigrant demands sustenance and is equipped to provide it. Just as in a subsistence economy, the presence of an immigrant creates a new job while simultaneously providing a worker to fill it.

This can be seen readily when an immigrant enters the country and homesteads a farm, as millions did during the 19th century. Where did that job come from? The immigrant brought it with him. He ate what he grew, and he grew it because he needed to eat. The economy did not *generate* that job, any more than a subsistence economy generates the jobs in it.

But, the Lamms counter, we no longer have a frontier to absorb millions of immigrants. This agrarian imagery may have been relevant once, but it isn't any longer.

Ironically, their own simple picture of immigrants settling on the frontier never was true. If we check out the history of various immigrant groups in America, as Thomas Sowell did in his book *Ethnic America*, we find a more-revealing picture.

Sowell reports that in 1900, over half of the farmers in America were of German ancestry. That is, the bulk of the immigrants who settled the frontier were Germans. Even so, during colonial times nearly half the German immigrants were craftsmen rather rather than farmers and worked at their crafts after they immigrated. By the late 19th century, the proportion of farmers among German immigrants had dropped to 25 percent.

Most Jewish immigrants, from colonial times on, were craftsmen and businessmen rather than farmers. In fact, the massive influx of Jews in the late 19th and early 20th centuries (one-third of all Jews in Eastern Europe immigrated to the United States during that period) remained and worked almost exclusively in the large cities of the East.

The vast bulk of Italian immigrants came after the closing of the frontier and took jobs in the port cities where they arrived, despite the fact that most had been peasant farmers in Italy. The Slavs ended up in the coal mines of Pennsylvania and the steel mills of Pittsburgh and Youngstown. Even Japanese immigrants, who are often stereotyped as farmers, followed a similar pattern: only about 40 percent of them worked as farm laborers and the rest worked in industry.

In reality, most of the immigrants to the United States did not settle the frontier. Instead, they crowded into the cities, where they obtained and held jobs supplying their own needs for sustenance in an exchange (not subsistence) economy.

That was the 19th century, but a look at Hong Kong suggests that things are not different today. Hong Kong is a small island. Its area of 1,050 square kilometers holds 5.2 million people, more than the population of any of the smallest 40 members of the United Nations. In fact, Hong Kong has more people than the smallest 35 UN members put together. Its population density of 4,900 persons per square kilometer is the third highest in the world, following Monaco and Gibraltar and just ahead of Singapore.

How could such a crowded speck of land possibly allow immigration? Yet it has. From 1945 to 1956 alone, Hong Kong accepted a million immigrants, including 700,000 refugees, and has admitted another million immigrants in the years since. By comparison, the United States, 9,246 times the size of Hong Kong, has admitted about 13 million legal immigrants since 1945, including about 1 million refugees. This comes to not quite 6 percent of our population. In Hong Kong, about 40 percent of the current population is immigrants, and many of these were refugees who arrived with literally nothing but the clothing on their backs. Some who swam across from China didn't even have that.

Hong Kong's economy is not in the straits one would expect according to the popular worries about immigration.

How is Hong Kong doing with all those people crowded in there? Very well, thank you. The death rate is 4.8 per 1,000, the lowest in Asia. The infant

mortality rate of 9.8 deaths per 1,000 live births is the second best in Asia, bettered only by Japan's 7.1 and better than any nation in North America, including the United States' 11.7. Life expectancy is 72 years for males and 78 years for females, better than virtually every other nation in the world. The literacy rate is 81 percent for all those over 15, one of Asia's highest.

Nor is Hong Kong's economy in the straits one would expect according to popular worries about immigration. Although Hong Kong's government apparently doesn't bother to compile figures on employment, it would appear that it doesn't need to. The 1984 edition of the *Encyclopedia Britannica Yearbook*, in its entry on unemployment, refers to Hong Kong as an "industrial magnet" that attracts labor. And according to data compiled by the United Nations, Hong Kong's population grew by 12 percent between 1970 and 1976—while during the same time employment in manufacturing grew by 21 percent and wages by 83 percent (compared to a 12 percent increase in consumer prices). Meanwhile, capital formation per capita was growing at 7.5 percent a year. All in all, it doesn't sound as though there was much room for unemployment in immigrant-"burdened" Hong Kong.

In short, the American experience in the 19th and early 20th centuries and the experience of present-day Hong Kong demonstrate that the frontier was largely irrelevant to the absorption of immigrants. The fact that America no longer has a frontier has nothing to do with whether we can "provide jobs" for immigrants today.

If an immigrant brings his job with him, though, why aren't the unemployed creating their own jobs? Why doesn't their demand for sustenance generate work? What happened to the match between their hands and their mouths?

The answer is complicated, but it includes minimum-wage laws, occupational-licensing laws, a legal bias in favor of labor unions, tax laws that encourage consumption and discourage saving, tariffs and import quotas that protect dying industries at the expense of growing ones, and thousands upon thousands of regulations that hinder the growth of business. In a nutshell, those who worry about immigration torpedoing our freedom have it backwards. It is not that freedom prospers only under economic growth. It is that economic growth occurs only under freedom.

The fact that America no longer has a frontier has nothing to do with whether we can "provide jobs" for immigrants.

The number of workers in the United States doubled between 1874 and 1900, with most of the increase coming from immigration. Despite the increase, real wages rose over 40 percent during that same period. That's what freedom can do to foster prosperity. In today's Hong Kong, under conditions of freedom comparable to those of 19th-century America, economic growth is creating room for the immigrants. In today's America, with our economic freedoms considerably diminished since 1900, the economy is staggering along and nearly 1 out of 10 workers either can't find work or is unwilling to take an available job because the alternative (often, government assistance) is more attractive.

We've really done it to ourselves, and what's worse, at one time we knew better. The original settlers of the United States came to an unknown land to get away from government restrictions, confident that they could prosper if only the government would get out of the way. The signers of the Declaration of Independence would have been horrified to hear Governor Lamm aver that the legitimacy of a government depends on whether people prosper under it. To them, the legitimacy of a government depended on whether the people consented to it rather than having it imposed on them. They knew that prosperity is individuals' own responsibility, and they realized that governments don't create prosperity—at best governments can only refrain from destroying it. In 200 years, the accepted wisdom has changed radically.

Despite the restrictions that hinder growth in our economy, immigrants still manage to find room in it. Julian Simon in *The Ultimate Resource* notes that within three months of their arrival in the United States, 47 percent of Vietnamese males aged 14 or older had obtained jobs. Simon also points out that when illegal Mexican aliens were removed by the Immigration and Naturalization Service (INS) from jobs they held in California, no native Americans could be found to fill those jobs.

This is a graphic example of aliens creating their own jobs, not displacing native workers. They were taking jobs that native workers, *including the unemployed*, refused to take. As Tom Bethell put it, writing in *National Review*, "Illegal aliens are good at lubricating an economy because they...slip into all sorts of economic nooks and crannies, sometimes taking two or three part-time jobs. In properly planned, bureaucratically approved economies, this kind of voluntary activity is against the rules and nothing works very well as a result."

So "jobs" are clearly not a sensible reason for limiting immigration. Instead, unemployment would probably end overnight if we simply abolished the rules that prevent or discourage law-abiding citizens from acting on the fact that they come equipped with both mouths and hands.

Yet it may still seem that those immigrants getting jobs converting raw materials into finished products will hasten the day we run out of natural resources. This supposed linkage of natural resources and wealth is behind the paradox that Lamm finds in the inability of Mexico, even with its great oil wealth, to provide jobs for its citizens. Since an economy doesn't "provide" jobs, the paradox really doesn't exist. Still, the resource worry warrants another look at wealth.

Is oil in the ground "wealth"? That depends on the calendar. In 1800, the answer was no. In 2100, the answer will probably again be no. Oil in the ground is

(Continued on p. 46)

THE 59¢ FALLACY

The earnings gap between men and women can't be pinned on discrimination.

By Jennifer Roback

This being an election year, you have probably been seeing people wearing every sort of campaign pin imaginable—the standards like Reagan and Bush, Mondale, and Hart, not to mention all of the more-localized varieties. But you may also have seen a pin that says simply "59¢."

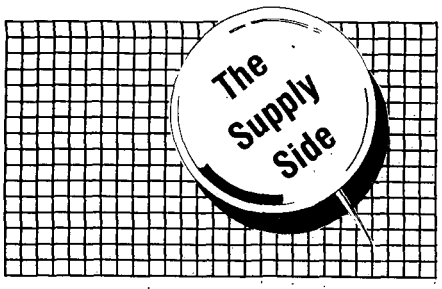
There is nobody with that surname running for office. It is a pin distributed by the National Organization for Women (NOW), and according to a recent fund-raising letter signed by NOW president Judy Goldsmith, it symbolizes "the plain, frightening fact . . . that most women are paid just over half as much as men for the very same work—to be exact, 59¢ for every $1 earned by a man." She continues, "Today, nothing better illustrates the economic plight of American women than NOW's 59¢ campaign button."

What Goldsmith is keying into is the much-discussed "earnings gap." It is an article of orthodox feminist faith that this earnings gap requires aggressive intervention by the government. The argument runs something like this: Earnings differences between men and women are evidence of discrimination in the free market. The earnings gap widened between 1955, when women's earnings averaged 64 percent of men's, and 1977, when women's earning level dropped to 59 percent. Therefore, it is concluded, discrimination against women has increased. Since this discrimination takes place in the free market, the government needs to intervene to protect women.

However, there is a large gap in this earnings-gap argument, as becomes clear if several key questions are considered. Is the earnings gap really due to discrimination? What other factors might account for the earnings gap? And, most important, is it even possible to distinguish discrimination from some of these other factors?

Surely the most striking change concerning women in the labor market since 1955 is that there are so many more of us now than there were then. The labor force participation rate of women the percentage of women who are working or seeking work jumped from 31 percent to 52 percent from 1952 to 1982, which translates into nearly three times as many working women. This huge

increase in the number of women working outside the home is important because increases in the supply of something are usually associated with decreases in its price. In this case, the supply of women workers increased in comparison with men, so it should not be surprising to find the wages of women falling in comparison to those of men between 1955 and 1977.



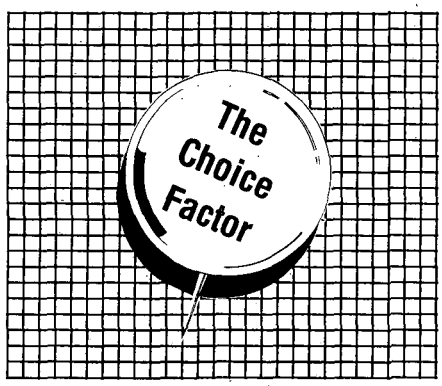
Suppose, though, that the labor market doesn't really work like the market for apples or houses, and therefore a supply increase could not cause that large a wage change. It's a fair enough question. But then consider a different example that can't possibly be explained by discrimination. The baby boom created a huge increase in the supply of young workers in comparison with the number of older workers in the late 1960s. Did the earnings of the baby-boom new workers fall in comparison with prime or middle-aged workers? The answer is a resounding yes. The earnings of young workers fell from 63 percent of the earnings of middle-aged workers in 1968 to 54 percent in 1974.

This supply increase actually caused a larger fall in earnings than the one that women have experienced. And the baby boomers' financial bust happened over a shorter period of time. In fact, some economists have been surprised that the earnings gap between men and women didn't widen even more than it did! Probably the reason is that not all the women entering the labor force went into "female" jobs. Many entered jobs and professions formerly closed to women, in which they compete primarily with men and not with other women. Because they were not increasing the supply of female-job workers, the women who pioneered in the fields of banking, medicine, construction, and law did not lower the average wages of women.

Even so, a disproportionate number of women *did* enter traditionally female jobs such as clerical and service work. Clerical jobs actually account for a larger fraction of jobs held by women now than in 1960. The wages in these occupations have not kept pace with wages in other sectors of the economy, at least in part because of the flood of new women workers entering these fields for the first time. Since these are the jobs in which women are most heavily concentrated, it is not surprising that women's average wages have fallen in comparison with men's.

Another characteristic of the newly working woman is that she is likely to be an older person, either returning to work after child rearing or entering the labor market for the first time. This means that she very likely has limited experience in the job market. In fact, women have 10 to 15 years less labor-force experience on average than do men of the same age. Naturally, the wages that inexperienced women can command will usually be lower than those of men or of other women who have worked longer or more continuously. So the average earnings of women have fallen in part because so many women are relatively inexperienced.

This is not to conclude that there is no discrimination against women. That would be silly. But it is equally silly to conclude that discrimination has increased since 1955 *because* the difference in earnings between men and women has increased over that time. There are many plausible explanations for that fact.



Anyone who has had his or her eyes open at all has noticed that women have opportunities today that were unheard of in our mothers' time. Women who would have been afraid to risk the wrath of society and family are venturing into the workplace for the first time. Others of us are breaking into male-dominated fields and finding a degree of success and acceptance that astounds our mothers. (The percentage of lawyers and judges who are female jumped from 4 percent in 1972 to 15 percent in 1982. The percentage of physicians who are women increased from 10 to 15 percent in the same period. And the percentage of women on college and university faculties has risen from 22 to 37 percent just since 1967.) Still others of us are taking even greater risks and starting businesses of our own. We still have some distance to travel in the job market, but it is difficult to take seriously the idea that women face *more* discrimination today than they did in the 1950s.

Of course, feminists usually don't come right out and claim that women are worse off economically today than they were 30 years ago. That would be too obviously absurd. So NOW president Judy Goldsmith, for example, talks in a fund-raising letter of "the economic plight of American women" and urges the 59¢ button on women as "a symbol that vividly demonstrates the intolerable economic discrimination against the status of women in our society."

The insidious thing is that an argument is implied here rather than stated directly. If Goldsmith were to come right out and say, "The earnings gap is *totally* caused by discrimination," she would have to draw the absurd conclusion that women face more discrimination today than they did in the 1950s. More to the point, her readers might draw that conclusion themselves and then question her initial premise.

On the other hand, it would be an important concession if Goldsmith were to acknowledge that the earnings gap might be caused by something other than male or market malevolence. NOW's symbol, the 59¢ button, would lose some of its point. More importantly, though, the plain fact of the matter is that it is extraordinarily difficult to establish a linkage between discrimination and a difference in wages. The 59¢ logic sidesteps that problem by placing the wage differential on the defensive. It presumes that an earnings difference is prima facie evidence of discrimination.

Actually, many of the factors that contribute to the earnings gap are the result of personal choices made by women themselves, not decisions thrust on them by bosses. The most important example is marriage.

Married women often are unable to relocate to further their careers as much as they would like. Many married women drop out of the labor force to raise children. As a result of both of these factors, married women tend to choose occupations with easily transferable skills that do not deteriorate when unused. This is why many women traditionally have chosen elementary-school teaching more often than college teaching, nursing more often than doctoring, and humanities more often than technical subjects.

These differences between married women and single women (and between married women and men, for that matter) contribute dramatically to reducing the earnings of married women. Thus we

find, in a comparison of the earnings of never-married women and those of never-married men, that the women's earnings in 1980 were 89 percent of men's. This figure has been essentially unchanged since the 1960 census. So if one is looking for a "culprit" for the earnings gap, it is far more plausible to pin the blame on *marital status* than on *gender.*

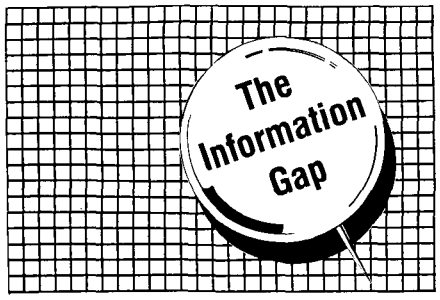
Some people might argue that these figures simply reflect the oppressiveness of marriage and the need for radical changes in this institution. There is some merit in this argument. Nevertheless, it is undeniable that many women do choose to get married. Perhaps a large number believe that the pleasures of intimate companionship and raising children are worth some financial sacrifice. We might wish that marriage did not require that women make this sacrifice, and we might work very hard to promote better options. But it is entirely unfair to blame employer discrimination for earnings differences that are essentially the result of choices made by individual women.

Moreover, while marriage may often mean a disadvantage in the job market, that has been changing for the better. Women are now less likely to drop out of the labor force to raise their children. More women are training themselves in technical fields. And in many households, the wife's career needs are determining the family's next move.

So why don't married women have higher relative earnings now? This is certainly a valid question. But these different lifestyles have become widespread only over the last 10 to 15 years. The earnings gap is based on aggregate data that include women ranging in age from 25 to 64 years, most of whom have not really been affected by these lifestyle changes. Among full-time workers 25 to 34 years old, women's earnings were 70 percent of men's in 1980.

So there are a number of differences between men and women in the job market that may account for their earnings differences. Taken altogether, these very reasonable and understandable factors cannot, it is true, account for the entire earnings gap. But when the gap *is* corrected for these factors, it is not 59 percent but more like 66-87 percent, depending on the study.

It is often claimed that the difference that still remains after all the economic factors have been accounted for must be due to discrimination. That is, discrimination is measured as the residual, or leftover, difference, after all other factors have been taken into account. But this attempt to gauge discrimination is dubious.



The residual actually measures our ignorance. It includes everything that has not been directly measured but that influences a person's wage. The residual includes things as diverse as good luck and personality as well as discrimination. Common sense tells us that personality makes a huge difference to a person's career success. Ambition, aggressiveness, willingness to take risks, ability to get along with and motivate others, commitment to the job, willingness to assume responsibility—all of these factors contribute to higher wages. In fact, many career magazines for women advise their readers to develop exactly these traits. But none of these factors can be measured, and the residual earnings difference could just as easily be due to differences in these factors as well as to discrimination. The point is that we cannot distinguish discrimination from these other, unmeasurable factors.

Do we really know that women are on average so much less aggressive and less ambitious that their earnings would be 87 percent of men's? The answer is that we don't know and we can't know. We cannot rule it out as a possibility, though, because our ignorance of what does generate a person's earnings is so great.

Clearly, neither feminist fund raisers nor the average well-informed citizen knows this stunning fact: only 40 percent of the earnings of white men can be accounted for by measurable factors. That is, if we look at a population of white men, a full *60 percent* of the differences in earnings among them cannot be explained by anything we can measure. Conventional discrimination cannot possibly be an issue in this particular population. Yet the unexplained residual earnings difference within this group swamps the largest difference in male-female earnings that could possibly be due to discrimination.

This is why we cannot rule out the possibility that the entire earnings gap between men and women is due to real personal productivity differences that cannot be measured. The upshot is that the *presence of discrimination can be neither proven nor disproven with statistical tests.*

Despite these technical problems, which are well known among economists, statistical tests are often introduced as evidence in discrimination lawsuits. An unexplained earnings gap is usually accepted as evidence of discrimination. And if it is accepted as evidence, the plaintiff will almost always win. In effect, this means that there is a presumption of guilt rather than innocence on the part of the employer accused of sex bias. It is true that the earnings difference in a specific employer's work force could be due to the employer's discrimination. But it could instead be the result of something equally unmeasurable. Mere statistics are not enough to tell.

A few years ago, an economist named George Borjas wrote an article in which he examined the salaries at the Department of Health, Education and Welfare (HEW), now Health and Human Services. He subjected HEW's salaries to the same statistical procedure that HEW itself used to demonstrate that universities were discriminating in their employment practices. Lo and behold, he found that HEW discriminated at least as much and sometimes more than the institutions they were charged with regulating. Many people interpreted this study as an attack on HEW salary and promotions policies. Actually, the point was to attack the methodology that HEW used in its attempts to ferret out discrimination in academia. Unfortunately, these procedures are still widely used in court cases.

So the 59¢ button is not really a very good symbol of women's economic plight. It is much more a symbol of a flawed method of correcting some very real problems that exist for some women in the workplace. It is a symbol of the misuse of statistics, both to make a dramatic point in the arena of public opinion and to win in court. It is a symbol of the faith that much of the women's movement places in government intervention as a solution to women's problems.

Unfortunately for that faith, many women are liberating themselves without the help of the law. They are finding their own path through the maze of the world of work and devising their own way to balance all of their financial, personal, and emotional needs. And the movement's loss is the individual's gain; for many of the problems that some women face today will best be solved by the individuals themselves and not by government action. ◻

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Abracadabra PROSPERITY

Advocates of an industrial policy are curiously like primitive Melanesians, who thought that the magic of ritual could bring them wealth.

By John Baden and Tom Blood

In the vast openness of the Pacific Ocean lies a group of islands inhabited by tribes known collectively as Melanesians. For thousands of years, these tribes existed in a primitive state, depending primarily on domestic pigs, garden produce, and copra (dried coconut) as staples and producing no important commercial product. Nevertheless, during the early 1900s, the Imperial German government established a settlement there and attempted to develop copra and rubber industries on the larger islands. Predictably, using central planning to build such an industrial base was unsuccessful. Among other problems, rubber and copra market prices were insufficient to cover shipping expenses. While the Europeans were unable to develop viable commercial activities, their presence generated a series of increasingly costly cultural adaptations among the natives, which anthropologists have labeled "cargo cults."

Study of the Melanesians and their odd cargo cults can provide more than satisfaction of anthropologists' intellectual curiosity. As economists coming upon the phenomenon, we found that there are illuminating analogies to be drawn between the cargo cults and modern practices not yet widespread but advocated by a growing chorus of analysts and politicians—the collection of measures called "industrial policy."

Like other primitive peoples, the Melanesians had developed unique and highly complex rituals. In the Melanesians' case, the object was to increase pig and soil fertility, control the weather, and influence other factors contributing to their wealth. They believed, for example, that a concoction of male semen and female secretions would increase the fertility of everything from men to soil. "No soil would produce good foodstuffs unless the husband and wife first copulated in the new garden, made a brew of their collected juices and certain leaves, and buried portions of the mixture in various parts of the garden," writes K. O. L. Burridge in *Oceania.*

In this setting, the arrival of Europeans created understandable shock among the residents. Turning up in ships and later airplanes with seemingly endless supplies of goods, the Europeans made a striking impression on a people whose status symbols had hitherto included dogs' teeth, porpoise's teeth, and pigs' tusks. The Melanesians reasoned that magic was the only force powerful enough to generate the Europeans' obvious wealth. They believed that if they were able to imitate European "rituals," the gods would bless them with cargo just as the Europeans had been so blessed. They confused ends with process; and in mimicking European forms, they wasted substantial portions of their scarce resources in pursuit of wealth.

Consider the following "rituals":

- During World War II, one tribe spent weeks preparing and building an "airport," because it had observed US soldiers "attracting" cargo planes with landing strips and control towers. The natives hacked an airstrip out of the jungle and built a bamboo flight tower, complete with wooden microphones, instrument panels made from bamboo, and earphones made of bark.

Illustrations by Kevin Pope

• Some tribesmen noticed that the Europeans kept vases and bowls of flowers on tables and windowsills, so they proceeded to decorate their own houses and in some cases entire villages with freshly picked flowers to entice the flow of wealth in their direction.

• American troops stationed on the islands during World War II watched in wonder as natives, dressed in khaki pants and armed with wooden rifles, marched in formation with "US" painted on their bare backs.

Other cargo rituals were less amusing. The natives' search for wealth often reached destructive and wasteful proportions as the tribes adopted new customs and sacrificed precious possessions. In attempting to please the cargo gods and demonstrate their faith, they destroyed crops, slaughtered pigs, burned houses, and threw valuables into the ocean. This kind of behavior peaked when the tribal society suffered shock or trauma. In New Guinea, for example, cargo cults twice replaced traditional ceremonies when diseases brought by the Europeans to the islands raged through the villages. Droughts, earthquakes, and tropical storms precipitated similar activities.

Although these results seem odd to us today, they are not, on reflection, all that surprising. Here was a group of people confronted with the spectacle of incomprehensible and unattainable wealth. They failed to understand how wealth is created. They were experiencing trauma. They looked for desperate, quick-fix measures.

With a spin of the globe, the Melanesian islands disappear, the expanse of the blue Pacific appears briefly, and North America appears. Both culturally and geographically, the comparison is extreme. But parallels can be found in the way people in both societies react to new events.

From the Constitution's inception until the 1970s, the US economy grew at an annual rate of roughly 2.4 percent. From the 1970s until quite recently, annual productivity dropped to 0.5 percent. Double-digit inflation, increasing bankruptcy filings, high interest rates, growing deficits, record joblessness, and shrinking old-line manufacturing production accompanied this stunted growth. These factors have affected Americans much as natural catastrophes affected the Melanesians. After being exposed to European wealth and especially during or after a period of extreme calamity, the natives confused ends with process and squandered much of what they had in efforts to secure wealth from the cargo gods. To us it is obvious that such efforts are fruitless, but a sobering parallel can be drawn.

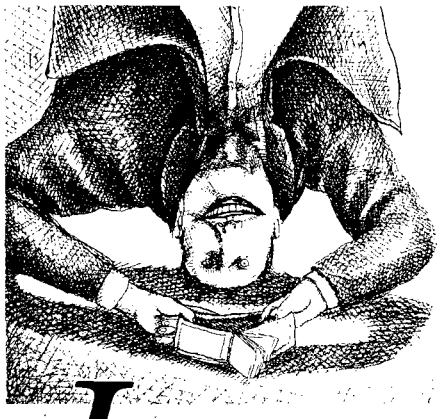
We have watched Japan and several European countries steadily outperform our economy, which is just pulling out of a slump labeled by some as the Great Recession of 1981–83. Furthermore, nearly every Democratic candidate vying for the 1984 presidential nomination constructed political platforms containing a major plank in support of some form of industrial policy. These candidates have called for tougher laws restricting plant closings, for expanding protection against foreign imports, and for increasing governmental spending on unemployment compensation and worker retraining, and most seriously, for the allocation of capital to boost the fortunes of certain industries.

These promised economic programs have the intellectual support of prominent liberal thinkers such as Lester Thurow, Robert Reich, and Felix Rohatyn. Policymakers, too, have joined the "reindustrialization" bandwagon. Bills presented before Congress spell out plans to create something similar to the Reconstruction Finance Corporation of the 1930s. The object is to allocate low-interest loans and subsidies to both sunrise ("promising") and ailing industries, while providing workers with federal subsidies to purchase their closed plants.

Lack of consistency and internal contradictions permeate industrial policy proposals. But, as with the Melanesians' cargo cult activities, the problems and misconceptions inherent in these proposals drive much deeper than inconsistency and lack of definition.

Consider, first, the Melanesians. If the natives from the various islands were to hold a cargo convention and agree on cult procedures, establish standards, and spell out objectives, they might agree to adopt the "airstrip" ritual as the optimal strategy for attracting wealth. As a result, airstrips might be constructed on all of the islands according to uniform standards. Despite uniformity, organizational efficiency, and cooperation, the consequences are predictable. First, potentially productive resources—gardens and livestock—would be neglected as human and physical capital were diverted from productive activities. Second, no planes, unless in need of an emergency landing, would land on the makeshift airstrips. Third, some local leaders would gain in the process.

Proponents of industrial policy, hoping to create wealth through governmental planning and allocation, suffer from a similar "Melanesian misconception." There is a belief that centralized planning and capital allocation, along with controlled economic stimulation, yield results superior to those produced by a spontaneous order of individuals operating with clearly defined, enforced, and transferable property rights. But when government is responsible for distributing capital, decisions are determined by concentrated special interests, appointed experts, and bureaucrats who are buffered from the long-run, real-world effects of their actions. Under such conditions, industry's attention is diverted from the market, where enhanced efficiency determines survival, to the political arena, where resources are increasingly channeled in attempts to influence government. Thus, in our modern culture, too, it appears ends have been confused with process, and we risk losing substantial quantities of resources through the proposed industrial policies.



Just as the natives observed and imitated the Europeans, US business executives, labor leaders, and policymakers study Japanese actions in search of clues that can help explain the phenomenal economic growth of "Japan Inc."—that magically efficient Japanese productivity machine. As foreign-made automobiles, televisions, stereos, and high-tech imports, with their lower prices and higher quality, have claimed large shares of our domestic markets,

industrial-policy advocates claim to have discovered Japan's key to success: MITI—the Ministry of International Trade and Industry. As the *National Journal* reports, the perception is that "the Japanese government [through MITI], working closely with the private sector, sets a specific goal for a particular industry and then initiates a series of government and private-sector actions designed to help achieve it."

Katsuro Sakoh, former director of international economics at the Council for a Competitive Economy and now a researcher at the Heritage Foundation, offers a contrary view:

> Many observers of Japan have committed the classic fallacy of elementary logic—*cum hoc ergo propter hoc* (false association). Since Japan has something those observers choose to call an industrial policy and since the country's industrial capacity has been growing dramatically, they conclude that there must be a causal relationship between the two. Yet other concurrent factors just as easily could be selected to explain Japan's successes. There is, for example, Japan's generous tax treatment of investment income—similar to supply-side economics. There is Japan's determination to improve quality control. And there is, of course, the "uncorking" of Japanese entrepreneurship due to the explosion of political and social freedom after 1945. Strangely, these factors are ignored by advocates of an American industrial policy.

Efforts to enlighten advocates are most often met with stiff resistance. When the Europeans realized the impact they were having on the Melanesian culture, they tried to discourage the belief that wealth was brought by "cargo gods." The Europeans, frustrated with trying to stifle the cults, finally arranged for several tribal chieftains to visit Europe to see that wealth was not created by magic or ritual. When the chieftains arrived, they were taken through factories, plants, and warehouses so that they might grasp the entire process by which goods were produced. The Melanesian leaders understood how the resources were used, what the assembly lines produced, and how these inputs were converted into final products. The Europeans were confident that the visit had convinced the chiefs to put a stop to the cargo cults.

Back home, however, the chieftains told tribal members that the Europeans' cargo in the foreign country was far greater than it was on the islands but that they produced the cargo in factories from raw materials. The *raw materials* had been delivered by the gods, the chieftains pronounced; so it was imperative that the natives be more dedicated to cargo ritual. A flurry of new magic and ritual ensued.

Industrial advocates suffer from similarly narrow vision. Even though the evidence clearly shows that it is *not* MITI that is responsible for Japan's extraordinary success, the proponents of an industrial policy push for tighter MITI-like governmental planning in the United States. If there were a cause-and-effect relationship between MITI and economic growth, however, it should not be difficult to uncover by comparing the records of MITI-backed industries and those that have been left relatively untouched.

In a report compiled for the Heritage Foundation by Katsuro Sakoh, several relevant questions about Japanese industrial policy were examined:

- Do governmental expenditures dominate the economy?
- Is governmental aid a major contributing factor to the phenomenal growth of Japan's most successful industries?
- How successful have the targeted industries been?

Sakoh first discovered that the amount of resources a government allocates to research and development is *inversely* related to the economic success of that country. By the late 1970s, the percentage of research and development funded by government was lower in Japan than it was in both West Germany and the United States. The government's share of R&D funding was about 50 percent in the United States, 40 percent in West Germany, and 30 percent in Japan. Moreover, only 5 percent of Japan's government spending on R&D flows into private industrial research, compared with 50 percent in the United States. This indicates the rather limited influence of Japan's governmental investment program, especially on private industry.

When one conjures up images of Japanese industrial strength, computers, automobiles, and electronic products come to mind. Should MITI be credited with this success, as industrial policy proponents insist it must? When Japanese industries that are experiencing substantial growth are examined, it is evident that there is an *inverse* relationship between MITI's involvement with any specific industry and the growth of that industry.

The machine and information industries in Japan receive a meager 0.8 percent of its Fiscal Investment and Loan Program's (FILP) total annual investment from special loans. Technological development as a whole has received considerably less than what has been loaned to ocean shipping, urban development, or energy resource sectors, according to the Heritage Foundation study. Technological development places second to dead last on FILP's priority budget list (perhaps helping explain its phenomenal growth).

It is also useful to examine those industries with which MITI has been *most* involved. Areas targeted for heavy financial assistance include agriculture, coal mining, shipbuilding, petroleum refining, and petrochemicals. Agriculture is by far the most inefficient of Japan's significant industries. The coal-mining industry, despite large influxes of government capital, has steadily declined since 1972, and production has fallen off to less than half of its 1962 level. Until the oil shock in 1973, a seemingly prosperous Japanese shipbuilding industry had been cushioned with subsidies. The oil crisis, accompanied by a decline in world demand for ships, highlighted the problem of excess capacity that the subsidies had engendered. Since the oil crisis, 19 companies have closed, 46,000 workers have been laid off, and output has fallen by 65 percent.

It seems that Japanese industrial policy has contributed as much to Japan's economic success as magic, ritual, or cargo gods did to the Europeans' wealth. In the 1960s, MITI attempted to conglomerate the Japanese auto firms into one corporation. Only by their refusal to join together have these auto producers become independent, internationally competitive firms. Perhaps a more appropriate observation is that Japan has experienced economic success *despite* MITI's actions. Rather than "magic or MITI," credit must be given where it is deserved: to European and Japanese entrepreneurship.

Because of entrepreneurship, a dramatic economic transition is occurring in what has become known as the Asian Crescent. Economic growth has been astounding during the past decade in countries such as Japan, Taiwan, and South Korea and cities such as Hong Kong and Singapore. There is a lesson here for the United States. Noel Barber observes in *The Singapore Story*:

> It is a success achieved despite tremendous odds stacked against it. The island has no resources—no food, no space, no raw materials—nothing but people. Yet

the inhabitants of today's Singapore have taken part in an economic miracle that has staggered the world. They enjoy the highest per capita income in Asia after Japan; their economic growth is the envy of many a western nation; the city has become the fourth largest port; the country has no unemployment.

In the Asian Crescent, policymakers and entrepreneurs recognized true wealth-creating processes, moved to establish the institutions necessary to initiate and sustain economic growth, and then adopted modern technology to improve efficiency. In a free-market system, individuals have freedom of choice, are encouraged to take initiative, and are rewarded for their efforts. The economy is "closely integrated with the international marketplace...tax rates are low and business is by and large unregulated," notes Melvyn Krauss, author of *Development Without Aid.* Government intervention is described as moderate and being primarily concerned with increasing the size of the economic pie rather than with allocating a fixed amount of wealth. Taiwan, Singapore, Korea, and Hong Kong have developed their economies not through governmental design but through the market forces of comparative advantage.

MITI has failed to promote economic growth in Japan. It is mostly market forces that have determined the fate of the Japanese economy. Japan's industrial base has undergone an economic metamorphosis, evolving from a rubber-textile-steel industrial base to the automobile-electronic phase and on to the frontiers of several high-tech markets, such as robotics. US policymakers and labor leaders would do well to note that in the process of this transition, *real* wages during the last 20 years have tripled.

As the Japanese economy evolved from labor- to capital-intensive production, its producers began investing heavily in such neighboring countries as Taiwan, South Korea, Hong Kong, and Singapore—where labor is abundant—by packing up many of Japan's steel and textile mills and shipping them to its Asian neighbors. Now Taiwan, South Korea, Hong Kong, and Singapore are also progressing from labor- to capital-intensive production. Korea, for example, is now successfully manufacturing automobiles. Clearly, both the Japanese and their neighbors benefit from exchanges that increase the productivity of labor.

Contrast the above with the entrenchment mentality taken by US labor, business, and governmental representatives:

• Union leaders and collectivist Democrats have introduced bills in 24 states and at the federal level proposing that businesses be prevented from closing their plants and moving to new locations. In all but the short run, such restrictions would hurt the workers that the bills are intended to help. When a firm is legally prevented from moving to a location where expenses are lower, it is at a disadvantage relative to firms in less-costly regions. The latter firms can undersell those "locked in" by law, and hence failure can be expected. Such laws also hurt the region, as new companies are reluctant to open plants in places from which they cannot escape. Despite these problems, two states (Maine and Wisconsin) and one city (Philadelphia) have passed such bills.

• Similar bills initiating more-extensive protectionist measures and more-restrictive import quotas are before Congress. Such protectionist coddling of businesses does not lead to recovery; rather, it encourages, breeds, and compounds unproductive behavior. For example, the US government first began protecting the steel industry during the late 1960s by forcing the Japanese into an agreement that involved "voluntary" restrictions on its exports. In 1977 the Japanese accepted even more restrictions with pressure from Pres. Jimmy Carter. Since then, the annual capital expenditure growth in the American steel industry has fallen to a meager 4 percent. Rather than retooling and upgrading capital and technology during the breathing space provided by the restrictions (as originally promised), the industry diversified into more-promising areas. In 1979, for example, US Steel sold 13 steel and fabricating plants while opting to build a shopping center near Pittsburgh, purchase the Marathon Oil Company for $6.4 billion, and construct a chemical plant in Texas. The scenario is frighteningly similar in US automobile manufacturing, consumer electronics, and the footwear, textile, and apparel industries.

• By March 1984, at least seven bills were before Congress proposing the resurrection of the Reconstruction Finance Corporation (RFC), a bureaucracy designed to pump billions of tax dollars into both sunrise and ailing industries. Such a "corporation," however, does not allow for the industrial transition necessary for long-term economic growth. Those in charge of allocating RFC subsidies would have no way to predetermine which allocations would most significantly enhance productivity. Lacking both the information and incentives provided by the market, administrators would predictably bend to the pressures of political concerns and narrow special-interest groups.

If productivity is to be increased, we must allow our industrial base to evolve with natural forces rather than adopt the entrenchment mentality advocated by industrial-policy proponents. US collectivist politicians, however, seek to replace the spontaneous order of the market process with a system similar to the ineffectual MITI. One would hope we have the wisdom to avoid constructing such obstacles to economic growth.

Why does support for an industrial policy exist? Like the tribal chieftains whose power was temporarily enhanced by cargo cult activities, industrial-policy advocates presumably feel that their welfare and that of their clientele will be improved by moving decisionmaking away from the market and toward coercive allocation. That this outcome ultimately shrinks the economic pie is of little consequence.

How can we avoid this outcome? Let us propose at least a benchmark for evaluating industrial policy. It is this: any policy that encourages a constituency for general efficiency is good policy. Clearly, a "supply-side" industrial policy—that is, one that minimizes governmental involvement—is superior to the alternatives that are currently being propounded by the collectivists.

We face a choice between two industrial policies. The more commonly advocated choice views government allocation as the key to a solution. In contrast, we believe that governmental distortions are the primary problem. A supply-side industrial policy employs the engine of market prices—condensed sets of information and incentives—to move resources to more highly productive uses. This is the industrial policy we should adopt as we approach the bicentennial of the US Constitution—the best recipe ever written for an industrial policy. ◧

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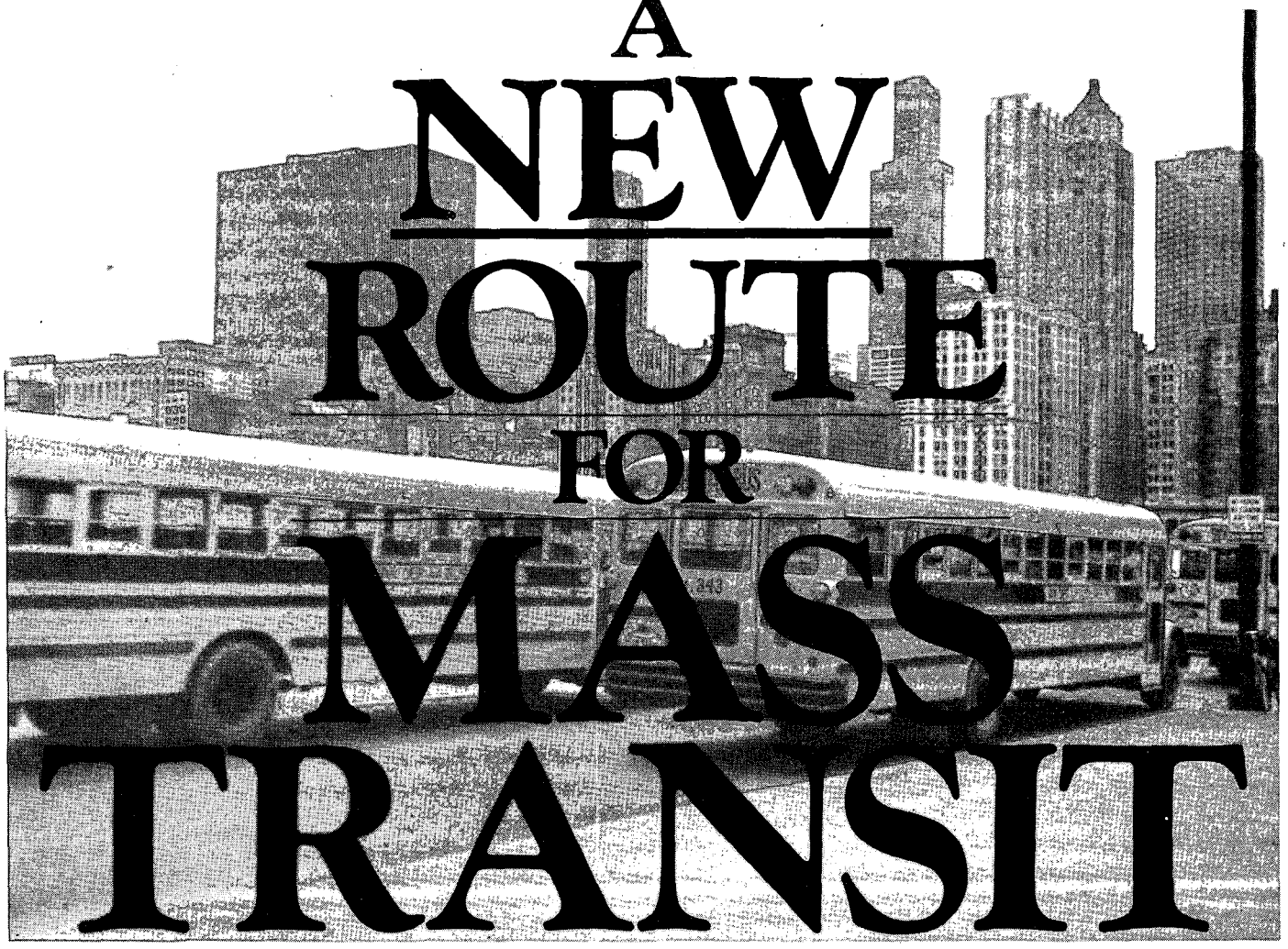
A NEW ROUTE FOR MASS TRANSIT



Chicago entrepreneurs are showing that mass transit doesn't have to be a government monopoly.

BY JOSEPH P. SCHWIETERMAN

A painful half-century of bankruptcies in the transit industry has led to a widespread belief in America that mass transit is operated most effectively as a regulated government monopoly. The private sector is commonly believed to be unwilling or unable to play a constructive role in urban mass transit.

This belief is reflected in the complex web of transit regulations that are rigorously enforced by local and state regulatory agencies. Existing regulations severely limit the opportunities for new operators to enter the industry, because potential transit operators must comply with expensive and politicized regulatory procedures. Most states also require potential operators to obtain a "certificate of public necessity"; to do so, they must demonstrate to the regulators the need for their proposed service. Since existing transit operators can challenge the demonstration of need, such procedures are biased strongly in favor of government or government-backed monopolies in urban transit. The bottom line is that entrepreneurship in the industry has been greatly discouraged.

The desirability of such extensive regulation was rarely questioned throughout the 1960s and '70s because of the dismal financial condition of America's few privately operated transit companies. Most companies during this time were suffering from decades of neglect and rising operating expenses and were eager to streamline their operations by abandoning unprofitable services. But for this they needed an okay from the regulatory agencies. Some transit providers had fallen victim to steady migration of workers and businesses to the suburbs and had become hopelessly dependent on government subsidies. Not since the "Roaring '20s" had America's transit industry earned sufficient profit to attract the interest of private investors.

These escalating problems help foster the belief that the private sector has little future in America's transit industry. The public, it has long been thought, can be adequately served only via government transit monopolies.

The prophecy that the future of the country's urban transit systems lay exclusively in the public sector was fulfilled in the early '70s. America's last private transit operators came under government control. With the public takeover of the historically profitable Chicago & Northwestern commuter rail service—America's last major private transit operator—in 1974, the era of free-market transit services in America quietly came to a close.

A series of events in the industry, however, has led many analysts to question this well-accepted approach to transit and to reconsider the virtues of an open, deregulated market. Despite regulatory barriers, privately operated commuter bus services have emerged in Los

Photographs by Joseph Schwieterman

Angeles, New York, Oklahoma City, Washington, and Chicago and have sparked a growing optimism that private firms *can* play an important and far-reaching role in urban transit. Many scholars, backed by some convincing evidence, believe that the private sector can help reverse the skyrocketing deficits, falling productivity, and dwindling ridership of America's deteriorating transit systems.

The potential of private transit services is illustrated dramatically in Chicago. Taking advantage of a regulatory loophole, a multitude of bus charter operators have in the last three years initiated a transit service between the city's Loop district and the suburbs. These private operators, known as "subscription buses," now handle more than 5,000 passengers a day. Many utilize low-cost school buses made available by declining student populations. Typically, the buses make three or four stops in each suburban community and drop off commuters downtown near the train station.

The rapid expansion of Chicago's private transit services occurred following a 1981 fare hike of nearly 100 percent on the Regional Transportation Authority's (RTA) public rail services. The fare increase was necessary from the agency's perspective—it was covering less than 50 percent of its operating costs through farebox revenue. But few anticipated the unprecedented sequence of events that was to follow. Within weeks, a fleet of over 100 buses was providing service to dozens of suburbs south and west of the city. The ridership shift to private operators was so dramatic that the public monopoly tried to lure passengers back by rescinding part of the fare increase.

In only three months, Chicago's private buses emerged as the largest private transit operation in America. From some suburbs, the private buses have become so popular that commuters can choose from over a dozen bus schedules and routes to meet their needs.

The new operators provide an excellent example of the potential for increased efficiency in America's transit industry. The operators aggressively solicit use of the buses by chartered groups during off-peak periods, between the morning and evening "commuter crunch," thus improving equipment utilization. The charters also keep overhead to a minimum by forgoing the luxury of downtown terminal facilities. To protect themselves from erratic fluctuations in ridership that can reduce efficiency, passengers are required to subscribe to the service on a monthly basis. In return, the passenger is given a reserved seat and, in some cases, on-board beverages and a newspaper. He is also given an opportunity to participate in bus routing and scheduling decisions at monthly organizational meetings.

Operators of these private subscription buses are able to provide service for as little as 4.3 cents per passenger mile, compared to 11.6 cents in cost for RTA rail services. The buses provide an inexpensive transit alternative comparable to the new "no-frills" services of the deregulated airline industry. Because some Chicago commuters have switched to the low-cost services from automobiles, the buses have also served to reduce road congestion.

These cost advantages have led to accusations from public officials that the private operators "skim the cream" by offering service only during rush hour. Others argue that the services are "unfair" because they employ low-wage labor on split shifts, a practice vigorously opposed by most labor unions. Some still argue that the buses are a fad fueled by consumer outrage over public-transit fare increases—even though the private buses have been in operation for nearly three years.

Nearly all publicly operated rail transit services in Chicago have suffered from the growing consumer preference for private bus services. The transit mode that was hardest-hit—experiencing nearly 70 percent of total ridership losses—has been the Illinois Central Line running south of the city. Despite its advantages in terms of speed and on-board amenities, almost 4,000 daily riders have shifted to the more-flexible, less-expensive bus services. For many commuters, the increased travel time on the bus is offset by the more-convenient neighborhood pick-up and drop-off locations provided and the friendly atmosphere on board. A large number of commuters claim that "they would never go back to the train."

Chicago's innovative new entrepreneurs have captured the attention of a group of transportation economists who contend that transit deregulation, like airline, railroad, and trucking deregulation, would enable the industry to more effectively serve the consumer. The unique sequence of events in Chicago has provided an excellent opportunity to study the potential benefits of a competitive transit environment.

Skeptics of the new private transit industry often claim that competition will lead to staggering deficits for public transit systems.

At the core of the monopoly-versus-competition issue for transit lies a simple economic question: How will competition from private operators affect the operating efficiency of an urban transit system? Many analysts argue that transit, particularly rail transit, is a "natural monopoly" and is most efficiently operated when sheltered from competition, as are many water and electric utilities. A 5 percent drop in ridership due to competition, they argue, will increase the per mile cost of handling the remaining 95 percent. So competition is considered wasteful or destructive.

With the help of Joseph L. Schofer of Northwestern University's Transportation Center, I undertook a comprehensive study of the implications of private firms competing with public operators in providing urban transit service. The study, presented before the Transportation Research Board in Washington, D.C., utilizes Interstate Commerce Commission (ICC) cost data and a reputable

cost-allocation technique to estimate the likely effects of Chicago's private firms competing with the city's subsidized RTA rail services. It is one of the first studies to check out whether data support the widely held belief that more competition will reduce transit operating efficiency and therefore boost taxpayer-financed deficits. The report concentrates on the city's densely populated Illinois Central transit corridor, where private buses have captured a market share of over 35 percent in many suburbs.

As part of the analysis, 75 cost categories for the public transit operator (RTA) were quantified. A mathematical model was used to estimate the economic consequences of service cutbacks by the public operator as private operators assumed a larger share of the market. This required an investigation of the operator's labor agreements and capital structure, as well as extensive use of present-value analysis to account for costly time lags in realizing the resulting savings.

Factors such as severance pay to furloughed employees (six full years' worth for most unionized employees), capital replacement policies, and right-of-way maintenance expenses were analyzed to estimate the long-term changes in the operator's cost structure as it scaled down its operation. An effort was made to include only cost reductions that would be realistically attainable by the public operators. Consequently, most of the estimates were deliberately conservative.

It was found that the public operator could reduce costs by over $89,000 per year for every transit car taken out of service. And for every train-mile of service eliminated, the operator would save $21 a year.

But how much service could a public operator realistically eliminate in response to the expanding fleet of privately operated buses? A ridership survey was taken for both private bus and RTA public rail services in the corridor. This helped in estimating the number of commuter trains the RTA could eliminate each rush hour and the number of transit cars it could permanently take out of active service, along with other operational changes. It was found that 3 full-length trains could be curtailed each rush hour and 18 double-decked transit cars taken out of service on the Illinois Central Line alone. "Car-miles" of train service, a variable closely correlated with total labor costs, could be reduced by over 300,000 per year.

The analysis consistently demonstrated that a shift in market share could significantly *improve* the operating efficiency of transit in the corridor (measured in cost per seat mile). If the government operator eliminated excess capacity in response to its competitors' service (as a private business unquestionably would), the average cost of transit service in the corridor would drop by more than 5 percent. This increase in operating efficiency would translate into a cost reduction of over $1.5 million per year. This figure could be expected to grow as more passengers left the RTA system in favor of less-expensive private subscription buses.

It might be objected that public rail services are of "superior quality" to the private bus services, making intermodal comparisons misleading. So a quality variable was factored into the analysis. Any quality differences, however, were found to be without much significance. Even under the most lopsided "quality" scenarios (weighed greatly in favor of the public transit monopoly), overall efficiency was found to be greatest in an environment of competition from private operators.

The evidence in Chicago suggests that if service cutbacks are made, long-run deficits can be reduced as private transit services expand.

Skeptics of the new private transit industry often claim that competition will lead to staggering deficits for public transit systems. Protective labor agreements and irreversible capital expenditures, they argue, will greatly diminish the savings to the taxpayer from service cutbacks. But the evidence in Chicago suggests that this need not be so. If the recommended service cutbacks are made, long-run deficits can actually be reduced as private transit services expand.

The heavy concentration of ridership during morning and evening rush hours requires the public operator to employ large quantities of labor and capital that are idle during the rest of the day. But private services operating during the peak travel periods reduce the "peaking" of demand for public rail services. They thus create an opportunity to substantially reduce RTA labor and equipment costs. Many RTA train crews that have traditionally been scheduled to make only a few trips each day because of the heavy peaking of ridership during rush hour can be rescheduled in a more-productive way.

Whether or not the RTA acts to increase efficiency and cut costs by eliminating excess capacity is another matter. So far it has not, although it should be noted that some of these effects have been achieved indirectly: with the economic recovery, transit ridership is up, but the RTA has not added new capacity. Meanwhile, the state of Illinois is moving to cut back on its operating subsidies to the RTA. Given the findings noted above, it should do so fearlessly.

These findings lend support to the argument that the public is best served by permitting a healthy degree of competition in the marketplace. In addition, they suggest that the "natural monopoly" argument, despite its widespread appeal to transit planners, is based on assumptions that do not stand up to quantitative analysis.

Transit deregulation would also create a powerful incentive for public transit operators to contain costs, a task with which Chicago's public operators have been notoriously unsuccessful. Because private bus services represent a permanent and realistic substitute for public rail services, the study found that labor negotiators are now in a comparably stronger bargaining position to attain

much-needed labor reform. With an increase in competition, they are better able to negotiate revisions in the carrier's many antiquated work rules, eliminate "featherbedding," and make the necessary provisions in labor agreements to allow for splitting shifts. Evidently, increased competition in the transit industry would benefit the taxpayer in much the same way as increased competition in the airline and railroad industries has benefited the consumer.

The Chicago experience, of course, is only one example of the much-overlooked potential of the private sector. But it is a case that free-market advocates can use to demonstrate that consumers are better served in a competitive environment. The public would be better served by freeing the emerging private transit industry from the complex "common carrier" regulation that is greatly discouraging its growth.

The tough standards set by the Reagan administration for federal funding in the operation or construction of urban transit systems is leading to an increased interest in privately financed transit alternatives. Several states, including Arizona and Florida, have already taken action to dismantle their transit-entry regulations.

The deregulation issue is also beginning to receive attention in more densely populated, urbanized states, where transit entrepreneurship and innovation are more urgently needed. There is a growing understanding that flexible and responsive private transit services are an attractive alternative to capital-intensive and subsidy-dependent rail systems, such as those currently being constructed in Miami, Atlanta, and Baltimore and pushed by transit planners in Los Angeles and Denver.

Many public officials with a vested interest in today's government monopolies will continue to oppose the deregulation of the transit industry, just as they opposed deregulation of other sectors of the transportation industry. It is now clear that many of their most cherished arguments against a competitive marketplace are either vastly overstated or unsupported by the evidence. The Chicago experience reveals that there are strong economic reasons for deregulating the transit industry—even when the taxpayers have been made to invest heavily in a rail transit system of its own. ◻

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Immigration's Assets

(Continued from p. 34)

wealth only so long as someone wants it badly enough to trade something for it. It is then worth exactly what people are willing to give in exchange for it. In 1800 no one would have given anything in exchange for it; therefore it was worthless.

This applies not just to oil but to *everything.* The economic value of anything at all is precisely what people are willing to exchange for it. So if you have something people want, you can gain access to raw materials that you want. Consider Hong Kong again. It not only doesn't have a frontier to absorb immigrants, it has no natural resources to speak of—not even a supply of fresh water. Hong Kong's drinking water comes from reservoirs that are filled during the rainy season and last the rest of the year. Yet with virtually no natural resources at all, the people there still generate wealth, *importing* the raw materials they need.

But there's a deeper issue yet. People do not exchange what they have for products made of natural resources simply because they want something made of iron or of wood. People want products for the services that they can perform, not for the products themselves. As someone has put it, the real reason you buy a quarter-inch drill is that you want a quarter-inch hole. So the issue is not natural resources themselves but how we can continue to get the services we want when there are more and more people to share an earth of fixed size—or, for that matter, to share a United States of fixed size.

By and large, technology is a way of getting more and more services out of a given amount of material. That may mean extracting specific materials out of leaner and leaner ores, or it may mean doing more with a given amount of refined material. Consider the amount of material that goes into a transistor radio of today compared with the amount of material that went into a vacuum-tube radio of a generation ago. The difference is one measure of the progress of technology since then. If technology advances rapidly enough, we can continue to get the services we want even though we have to divide a fixed amount of iron, copper, and so on among a larger number of people.

So the question is put one step back—can we be sure technology will advance rapidly enough to keep pace with population? If not, it seems that population growth, including immigration, must be limited to a rate with which technology can keep pace. But this is to misconceive why technological developments occur. As Julian Simon emphasizes in *The Ultimate Resource*, "the development of new methods that prevent scarcity is *not fortuitous.*" Drawing from history, Simon shows that "to a large extent new methods are invented and developed *in response to* the signals of impending scarcity." Thus his ultimate conclusion, that "an increase of human beings constitutes an addition to the crucial stock of resources along with causing additional consumption of resources." In short, people *create* resources by finding ways to do more with less.

This makes it sound as though population increase, including immigration, might even benefit a nation, particularly if that nation allows the increased population the freedom to use their hands to feed their mouths. Simon has documented this possibility, showing that people begin to produce net economic benefits to society about 30 years after they are born. In the case of immigrants, the payoff usually comes even sooner. Simon's calculations show that the "return on investment" legal immigrants make to the rest of society is about 20 percent per annum, certainly one of the best payoffs around today. The payoff from illegal immigrants is even higher, since they pay taxes but don't get Social Security and other benefits.

So those who worry about economic harm from immigration are "dismembering" the immigrants: those who worry about immigrants taking jobs are looking at their hands but forgetting about their mouths; those who worry about immigrants consuming resources are looking at their mouths but forgetting their hands. In fact, the immigrant is a whole person. He has two hands and one mouth. He brings with him the job of providing his sustenance, and he brings with him the hands to produce the resources he consumes.

Does this mean that we ought to throw open the gates and let anyone enter who wants to? The American experience of a century ago and the experience of Hong Kong today suggest that we might very well be better off for doing so. However, that's another subject entirely. The point here is simply that whatever we do about the level of immigration shouldn't be done relying on the standard arguments about jobs and resources. They are false to the core. ◻

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A Blow to Property Rights

BY BERNARD H. SIEGAN

Eminent domain powers of states and municipalities have been augmented by a recent Supreme Court decision in the case of *Hawaii Housing Authority* v. *Midkiff*. At issue was a Hawaii "land reform" law authorizing the state to break up large landholdings. Ownership of land in Hawaii has tended to be concentrated in the hands of a few large landowners, and many homeowners have leased the land on which their homes were built. But the state passed a law under which it could condemn the lots and sell them to the homeowners.

The landowners challenged the state's land redistribution plan in court. They based their argument on the US Constitution's eminent-domain clause, which states that "private property shall not be taken for public use, without just compensation." Their property was not being taken for "public use," they contended, but for the benefit of certain persons—the homeowners.

The Supreme Court confronted two alternatives. It could follow the 1954 ruling in *Berman* v. *Parker*, which virtually read out of the Constitution the public-use requirement. Or it could continue the support of property rights evidenced in some recent cases and counter the *Berman* holding. Unfortunately, in a vote of 8-0, it took the first option.

This blow to property rights is quite surprising. In three cases over the last several years, the Court had seemed to be showing some concern for property protection.

The first such case was *San Diego Gas and Electric Company* v. *San Diego* in 1981. The case was decided against the owner on a technical legal issue by a 5-4 vote. However, as part of the dissent he filed for the minority of four, Justice William Brennan asserted that once an unconstitutional regulation of property has occurred, government should pay compensation to the owner for the period the illegal regulation is in effect. This was significant because previously, it was generally assumed that the only remedy for unlawful land-use regulation was to get the courts to declare the regulation invalid.

Justice William Rehnquist voted with the majority on the technical issue, but he implied in his concurring opinion that he supported the minority on the compensation issue. This suggested a majority position on the matter, and some state and federal courts have proceeded to follow Brennan's position.

The dissent in the San Diego case is one of the most important recent events in land-use law. Among its noteworthy comments is a rhetorical question: "After all, [if] a policeman must know the Constitution, then why not a planner?"

The second recent Court decision protective of property rights was in the 1982 case of *Loretto* v. *Teleprompter Manhattan CATV Corporation*. A 6-3 majority declared unconstitutional a New York

law that allowed a private company to string a television cable across the roof of an apartment building without the owner's consent. The Court enunciated for the first time a rule that any state-directed permanent occupation of real property, even a small one, constitutes a taking of property that requires compensation, regardless of any public interest the action might serve.

The third positive case was *Summa Corporation* v. *California ex rel State Lands Commission*, decided earlier this year. In this case, the California Supreme Court had allowed the Los Angeles city government a "public trust" easement over land, enabling the city to control the property for environmental and recreational purposes. The US Supreme Court overturned this decision by an 8-0 vote. (The opinion was not based on any constitutional issue.) According to the Pacific Legal Foundation, the decision frees about 10 million acres of private land in California from the threat of state control under the "public trust" concept.

Unfortunately, the Hawaii decision bucks this trend. It also illustrates the double standard that has long existed on the Supreme Court. Thus, in the Hawaii opinion, Justice Sandra Day O'Connor declared that judicial deference to a legislature's public-use determination is required under existing precedent "unless the use be palpably without reasonable foundation." The Court is rarely so deferential to legislatures when intellectual and political rights, instead of material ones, are at stake.

Precedent in the law is obviously important, but it should not be conclusive when it conflicts with original constitutional meaning. When the Fifth Amendment, with its eminent-domain clause, was adopted, most political leaders and jurists were committed to the principle, enunciated by John Locke, that governments are instituted to protect every person's property from other people's depredations. Governments' taking land under eminent domain was considered an exception. Some labeled it the "despotic power," but it was viewed as necessary to obtain essential public facilities such as roads, fortifications, and lighthouses.

James Kent, the celebrated New York chancellor and commentator, warned in 1827 that the right of eminent domain "gives to the legislature the control of private property for public use, and for public use only." If it should "take the property of A and give it to B, the law would be unconstitutional and void."

Kent's perspective has been widely echoed, including by the Ninth Circuit Court of Appeals, which upheld the Hawaii landowners. Those who would have governments taking over football teams and blocking the relocation of factories now have one more weapon in their arsenal. Property rights merit more protection than they received from the Supreme Court in the Hawaii case.

Bernard H. Siegan is distinguished professor of law at the University of San Diego Law School. He is the author of Land Use without Zoning *and* Economic Liberties and the Constitution.

Illustration by Susan Salladé

SPOTLIGHT

Transit Renegade

BY PATRICK COX

Private transit service is something of an art form in the Philippines. After World War II, Filipinos salvaged, lengthened, and decorated jeeps that were left by the US military, and the gawdy "jeepnies" have become a tourist attraction in themselves.

Jess Losa comes from Luzon, south of Manila, and brought the tradition of aggressive, unsubsidized competition in transit services to the United States when he immigrated in 1969. With a degree in radio electronics and $300, 19-year-old Jess Losa moved to San Francisco.

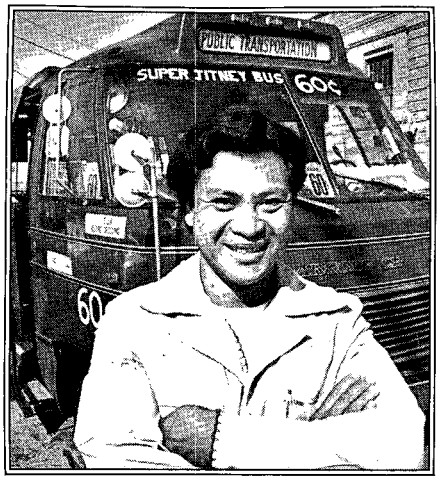
"I knew that I wanted to be financially independent, to work for myself," Losa says, "so I started looking for a way." He got a job as a dishwasher at a San Francisco hotel, was promoted to cook, and eventually became a bartender there.

During that period, Losa learned that jitneys—small passenger buses that run regular routes, but often without a set schedule—were legal, with permits, in certain areas. In 1972, he bought a van and a $2,000 permit to operate a jitney between downtown San Francisco and Daly City, south of San Francisco. He charged the same price as the government buses, and his business was good enough to encourage him to expand. He decided to build up a whole fleet of eventually 20 jitneys.

In 1973 Losa bought his second permit. Though he asked for a permit for the same area in which he already operated, the permit department mistakenly gave him a permit to operate between the Southern Pacific Train Depot and San Francisco's business district.

Getting a permit was complicated and time consuming, however, so Losa took the bureaucrats' advice and kept the wrong one, even though there were already five jitneys servicing the depot and all were having trouble. They charged the same as the government buses and, at first, won over customers with faster, accurately scheduled service. But the subsidized fare for riding MUNI, the San Francisco bus service, had remained 25 cents a ride for years, though the system's costs were rising rapidly. The van-sized jitneys, not benefitting from taxpayer subsidies, were leaving because of escalating costs. But Losa decided to lower his cost per rider by using a larger, 21-passenger bus. He put $1,000 down on the bus and applied for a permit to operate the larger vehicle.

The local transit union protested Losa's application, which then came down with a severe case of bureaucratic delay. Losa circulated a petition for his service and submitted the 5,000 signatures to the city, which finally issued the permit—four years after Losa had applied for it. Meanwhile, Losa had lost his down payment on the bus. He doubted that anybody would loan him the $26,000 he needed to buy his bus. But one of Losa's passengers—many of whom Losa knows by name—asked him to come talk to her. She was a bank vice-president, and Losa got the loan and his bus in 1982.



JESS LOSA

The transit union, fearing more of the larger buses, stepped up its protests and pressured the San Francisco Board of Supervisors. A magnifying glass was applied to Losa's service.

When one of his doors stuck partially open, Losa ordered the parts, mounted a sign warning passengers of the potential hazard, and kept operating while he waited for parts to arrive. Yet he was pulled over by a cop and charged with various infractions, such as operating with an open door, overloading (only in city-owned buses is it legal for passengers to stand), discharging passengers at more than 48 inches from the curb (cars were parked in bus stops), and reckless driving (for making a left turn where only buses are allowed to do so).

The police officer told Losa that he stopped him because a passenger had complained, but later he told the *San Francisco Chronicle* that he had been directed by the Board of Supervisors to watch and ticket the jitney driver. For a month thereafter, a police car continued to follow Losa. Nineteen passengers testified in court that the partly opened door was no hazard. Losa beat most of the charges (his bus is now *legally* a bus) but spent $8,000 in legal fees and lost a week's worth of business.

Still, it seemed a somewhat happy ending. Losa's financial statement showed debts totaling only about the amount of his legal costs to stay in business, and soon he was earning money again. But then the California Transportation Commission ordered the Bay Area commuter train service to increase ridership because it was not generating the required 40 percent of its operating costs.

Surveys showed that many riders shunned the trains because of the terrible MUNI (bus) service connecting train depots with business areas. So even though MUNI generates less than one-third of its total operating costs, a multi-million-dollar subsidy was awarded to the mostly upper-middle-class train riders, allowing them to ride the buses of three counties, special shuttles (to the same area that Losa services), and cable cars—for only $10 a month. Even by conservative cost estimates, such a package costs taxpayers well over $100 per passenger per month.

Losa's ridership dropped immediately, and his plans for financial independence took a hard blow. "I may have all my rights," he remarks, "but they have the power. They can do anything they want to do—all I can ask for is a chance to compete."

Yet despite all his hardships and frustration, Losa, like many immigrants, manages to stay hopeful. "All the bad that's happened to me is in the past," he says. "You can't change that anyway. But you can change the future."

Patrick Cox is a frequent guest columnist for USA Today *and public affairs director of the Pacific Institute for Public Policy Research.*

Photograph by George T. Kruse

A FREE REPORT

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WR2

INVESTMENTS

Evasion of the Privacy Snatchers

BY MARK SKOUSEN

I got a strange phone call recently. "Hello, my name is Jim Thompson," the caller said. "I'm calling from a phone booth in Los Angeles, and Jim Thompson isn't my real name."

I gulped and wondered what I would hear next.

"Is our line bugged?" he asked.

"I don't think so," I responded.

"Well, look," he continued, "I need some help. I want to send a hundred grand to Switzerland as soon as possible, and I've been told you are the world's expert on financial privacy."

I admitted that I had written the book *The Complete Guide to Financial Privacy* (Simon & Schuster) and that I had learned a lot about the privacy-invaders from my stint with the Central Intelligence Agency in the early 1970s. Still, I said, I was a little reluctant to take on consultations like these.

"My situation is desperate," he pleaded. "I need to hide my money because. . . "

I cut him off. "Please, the less I know about your case the better. I'm not an attorney." I'd learned a long time ago that it's better not to know why someone wants to invest secretly. More important, I've learned never to give investment advice that is illegal or would encourage illegal activity.

Ten years' experience in this business has taught me the critical lesson that there is almost always a *legal* solution to a person's financial problems. Desperate citizens who turn to illegal means invariably regret their decisions, especially after discovering that they could have achieved nearly the same results legally.

There are, I've discovered, a number of *legitimate* reasons for investing privately. You don't have to be a drug smuggler, organized-crime figure, or tax evader to have something to hide!

Recently I was on a radio talk show, and a caller challenged me on this issue.

"I have nothing to hide," he said proudly.

"If that's the case," I responded, "you won't mind my asking you a few personal questions, would you?" He agreed.

"Do you have any valuables in your home?"

"Yes."

"Could you tell the listening audience what they are, and the precise location where you have them in your home?"

"That's none of your business!" he exclaimed.

"Then could you tell us if you are divorced?"

"I'd rather not say."

"Have you ever been audited?"

"No," he said, "but an IRS agent can look at my records at any time—I've done nothing illegal."

My point is this. Most people say they have nothing to hide—*until* their house has been broken in to or they have been hit with a hefty lawsuit or have gone through the agony and expense of an IRS audit! More and more people are learning the hard way that they must fight to keep their hard-earned money from being robbed, sued, or taxed to death.

Fortunately, there are legal ways to create a "private investment portfolio" so that you can insulate your wealth from the privacy-invaders. Here are several alternatives:

Gold and silver coins: You can purchase gold coins (Krugerrands, Maple Leafs, British Sovereigns, US double eagles, etc.) or silver coins (pre-1965 US dimes, quarters, halves, and dollars) without any public or government records. Since we are in the beginning of another inflationary boom, now is a good time to begin accumulating precious metals. For maximum privacy, make your purchase in person, with cash. Coin shows, held frequently in major cities, are an excellent place to transact business confidentially—and you usually avoid sales tax, to boot.

Where to store coins safely and privately? I recommend diversification—some at home, some at a bank safe-deposit box, and some across state or country borders. You might also consider putting some coins in a private security vault, a popular alternative to banks. (A list of over 100 vaults in the United States can be obtained from the National Association of Private Security Vaults, P.O. Box 238, West Lebanon, NH 03784.)

Non-dividend-paying stocks: You can buy stocks, preferably through a discount broker, and preserve some privacy. The key is to buy stocks that don't pay dividends (most over-the-counter stocks and penny-mining shares fit into this category). Always take possession of the stock certificates for maximum privacy and security. Some brokers will even allow you to take delivery of your stocks in "street name," thus giving you added privacy. As long as no dividends are declared and you don't sell the stock, you can legally avoid any government reporting requirements. Be sure to select stocks that have a good long-term outlook so that you can hold them indefinitely.

Tax-free money market fund: Here is a way to have an interest-bearing checking account and to transact private business by mail, without any reporting requirements. Dividends from the short-term municipal bonds are exempt from federal taxation, so a check withdrawal is not reported. Some funds offer double-tax-free funds, free from federal income taxes and from your state's income taxes as well. For example, Capital Preservation Fund has a double-tax-free money fund for Californians.

$5,000 foreign-bank account: Under the small-account exemption, you can now have up to $5,000 in a foreign bank account without reporting it to the government. The IRS instructions state that you can actually check the box, No, you don't have a foreign bank account, when in fact you do—as long as it doesn't exceed $5,000 in value. The exemption applies to *each individual*, so if you have five members in your family, you could put up to $25,000 abroad without having to report it to the government. Many Canadian and European banks will open accounts for less than $5,000. Choose between savings accounts (in foreign currencies or US dollars), certificates of deposit, precious metals, stocks, and bonds.

Using such means as these, you shouldn't have to resort to clandestine phone calls when you're desperate for secrecy. You can over time build up an investment portfolio that will legally protect you from privacy-invaders on the prowl.

Mark Skousen is an editor, author, and speaker on financial matters and a private investor in his spare time. He and his family are currently living in the Bahamas.

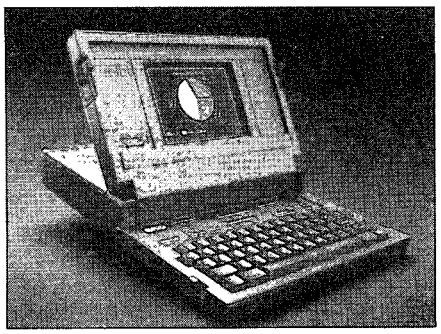
Life & Liberty

Itty-Bitty Wonders

By Patrick Cox

Word processors! I could wax eloquent. They do away with the need to retype to get clean copies (with anything over a page or two long, the time savings are remarkable). Less obviously, word processors also affect the quality of writing by making it easier to make changes in a manuscript.

My work as a writer and an employee of an organization that generates and disseminates information has been revolutionized by the word processor. Indeed, it has had such a profound impact on my occupation that computers have become a competitive necessity in the same way that typewriters had before.



No bigger than a briefcase, the Grid Compass is so versatile that it is used as a back-up computer on Space Shuttle missions.

Yet interestingly, there is as strong a resistance to word processors in the publishing business as there is in normal business. Many editors refuse to accept anything printed on dot matrix printers, even though they are cheaper to purchase and operate, faster, more economical, and usually just as easy to read as impact printers. But we often try to disguise the fact that something was composed on a computer instead of a typewriter. Some traditions, like Gutenberg's type, change slowly.

The area in personal-computer evolution that is most exciting right now is the miniaturization of hardware. Since the first transistorized computer, size constraints have been forbiddingly large. Suddenly, that has changed. The human hand is now the limiting factor in a new breed of machine about the size of a loose-leaf binder. Some of these "lap computers" are actually too small for efficient typing. They are designed instead for entering and processing relatively small amounts of data or providing quick analyses or demonstrations in the field. They represent the future of personal computers.

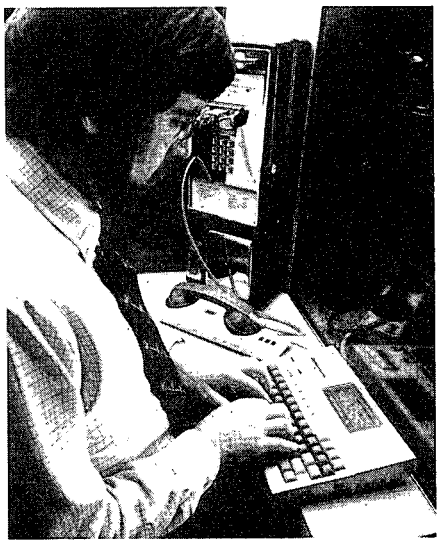
In the long run—and goodness knows what that means when we're talking about computers—even the limitation of the keyboard is likely to disappear as more efficient ways of entering data are developed. But for now, computers already have the potential for being smaller than ergonomics would indicate is useful. And computers that small are *very portable*.

There is a whole range of lap computers available—true portables, as opposed to transportables—with a dozen out now and more appearing almost daily. The machines cost from $500 for the most modest to the ultimate personal computer at about $9,000. But they all have a few things in common.

First, they can all be lifted easily and fit into a briefcase. Because of their size, they use liquid crystal diode (LCD) screens that are as thin as a good digital watch. The LCD screens often fold over the keyboard when the computer is not in use. Almost all of them operate on batteries. And most of the better machines are easily adaptable to telecommunications functions, so you can use a lap-size computer to call another computer or an information network of some sort.

What are the advantages of such radical portability? The marginal utility of itty-bitty personal computers is the same as that of a notepad. You can keep one in your briefcase, beside the bed, on the train or plane, next to your favorite chair, in the bathroom, or any place that you would want to record notes or more. The difference between truly portable computers and transportable computers is the difference between a notepad that you can put in your pocket and a heavy slate tablet.

I am writing this on a Compaq portable computer. It is similar to many other fine transportables like the Kaypro, the new Apple products, and the IBM portable. But they aren't all that portable, any of them. They need to sit on stable surfaces, and they are chained to electric outlets. I bought mine with some trepidation. But I liked the idea of the desk-top system looking sleek and powerful in my office. I had no intention of taking my computer to the office or on a business trip. And the Compaq portable was the most computer for the money that would run a specific program I chose.



Most portable computers, such as this Epson HX-20, can easily be hooked up to other computers by phone—even a pay phone.

I had originally wanted a big screen—preferably one that takes a projector, the kind you watch football games on in trendy bars. But then I noticed that some of the newest desk-top machines, like the Hewlett Packard 150, use the same size screen as my portable. I was ready to buy a large screen monitor to go with it but, like many other people, have since discovered that small screens are actually pleasant (ergonometricians say you have to move your eyes less with smaller screens).

Among the truly portable, the lap-size computers, there are some that hold only a few pages of data and others as much as several IBM PCs. That, as usual, is a matter of economics. The $9,000 Grid Compass is used as a backup system on NASA Space Shuttle flights. It is the Rolls Royce of personal computers, equipped with more bubble memory than the average user would ever need.

But the less-expensive models have their uses, especially in conjunction with another personal computer. Portables act as terminals to the personal transportable mainframe, and they can be used in transit, in the park, in the field, or in front of the television. (Some, however, cannot actually be used *on your lap*, because they get too hot.) Most come with capacity for telecommunications, so 30 pages of data can be constantly

(Continued on p. 65)

Photograph courtesy Grid Systems Corp.

Photograph courtesy Bohle Co.

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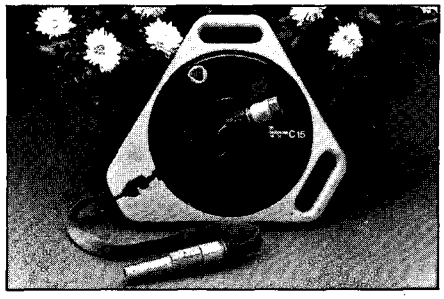
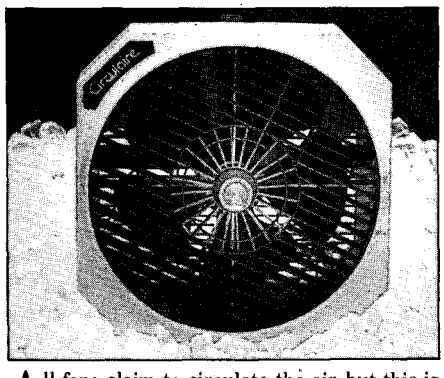
HASSLE-FREE HOSE



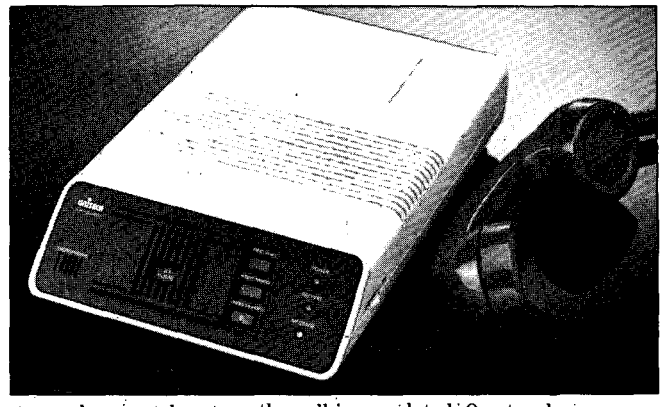
Imagine a 50′ garden hose that will not kink, weighs only a couple of pounds and winds up readily into a neat 12″ roll. Then add the convenience of no-leak snap-apart fittings to the spigot and to an adjustable nozzle. What you have is a well-engineered watering system that leaves the premises looking tidy while it relieves you forever of wrestling with recalcitrant, stiff, kinky hosing. The hose is made of vinyl-impregnated nylon fabric that will withstand pressure in excess of 150 lbs per sq. in. and winds up on a lightweight Lurans plastic carrying and storage wheel with built-in handles. This hose roll system is made by the leading West German manufacturer of lawn and garden equipment and is just being introduced to the U.S. market. It costs **$39.00** ($4.95) #A1004.

FAN-TASTIC



All fans claim to circulate the air, but this is the only one that circulates air in all directions at once, wall to wall, floor to ceiling. As the fan operates, a rotating louver on the face directs the air flow through a 360° sweep, so it is not blasting out in a single current. Louver rotation speed can be adjusted or the louver locked in position to give the directional air flow of a conventional fan. The 3-speed Circulaire fan is quiet, lightweight (under 9 lbs.), fully portable and energy-efficient. Made in Providence, R.I., it measures 16⅝″ x 9⅛″ x 17½″, carries a 1-yr. warranty, and costs **$42.00** ($5.95) #A1060.

USER-FRIENDLY PHONE MACHINE



The computerized Unitech telephone answering system is remarkable not only for the sophisticated features it offers but for the sheer ease of setup and operation. All functions are automated and the unit is totally voice-responsive. Messages stack back- to-back with no lost time in-between, hang-ups do not register, and when you want to retrieve your messages from afar all you need is your voice, no clumsy carryalong beeper unit required. A toll-saver feature allows you to call in and — if there are no messages — hang up before the call is completed. One-touch announcement recording with automatic tone-insertion following your message. Call screening lets you hear who is calling. Measures only 11″ x 7″ x 2½″. Solid-state reliability designed for continuous use. **$139.00** ($6.95) #A1147.

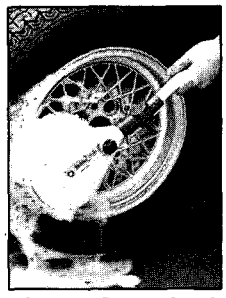
WELL-WROUGHT WIZARDRY

We tried White Wizard cleaner on a rug stain of several months' standing. The rug came clean. We tried it on the grass-stained knees of the kids' blue jeans. They came clean. Now it is the first thing we reach for when confronted with a grease, oil, blood, ink, berry, fruit juice, lipstick, coffee, tea, smoke or pet stain. We have found White Wizard exceedingly mild-mannered — odorless, neutral Ph, non-abrasive, biodegradable, non-toxic. Two 10-oz. tubs of White Wizard cost **$12.00** ($2.95) #A1008.

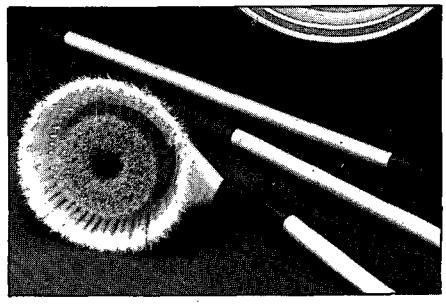
HALON FIRE PROTECTION

Halon is a colorless, odorless, heavier-than-air vapor that attacks fire by actually interrupting the combustion process at the molecular level. It is quicker and more effective than agents that simply try to smother a fire by cutting off its oxygen. It leaves no residue, and will not injure delicate electronic equipment, contaminate food or stain fabrics. The laboratory approved S.A.F.E. 200 fire extinguisher gives quicker fire-kill in a smaller, easier-to-handle container than any fire extinguisher on the market. The 1.4 lb. aerosol-type canister contains only Halon, needs no maintenance or recharging, has a shelf life of 10 years. Safe for all 3 classifications of fire. **$29.00** ($3.95) #A1122 each.

HIGHSPEED SCRUBBER



The Swirlon Rotary Scrubber turns an ordinary garden hose into an automatic cleaning machine. Water pressure spins the 5″ inner brush for highspeed active cleaning while the 8″ stationary outer brush contains the spray and sweeps away the loosened dirt. The Swirlon brush system gives much better cleaning results than the ordinary jet stream hose nozzle method. Swirlon also keeps mess to a minimum as the water stream and soap is concentrated under the brushes — no more backsplash onto the person doing the cleaning. Brushhead adjusts to any of six angles for best cleaning, contains the soap reservoir for automatic sudsing and soft split-end plastic bristles for sturdy gentleness. Water flow can be shut off with a thumb-operated valve so there's no constant running back and forth to the faucet. Two 24″ extensions provide a total reach of 70″ — ideal for washing soffits, siding and second story windows. Makes short work of cleaning garbage cans, lawn furniture, patios and porches. Car washing has never been so quick, easy and expertly accomplished. The Swirlon Set costs **$32.00** ($3.95) #A1135.



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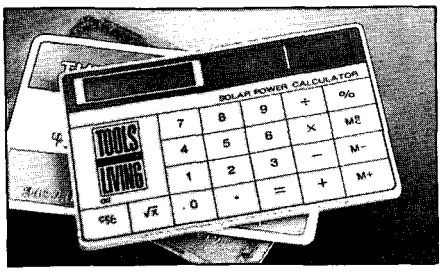

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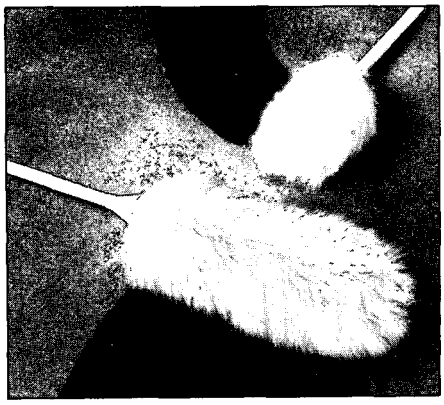

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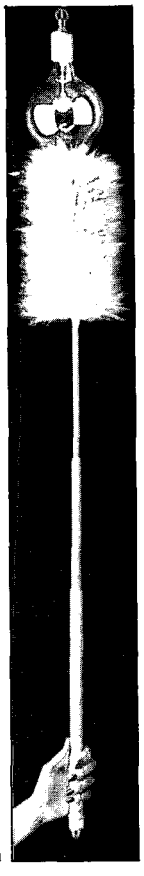

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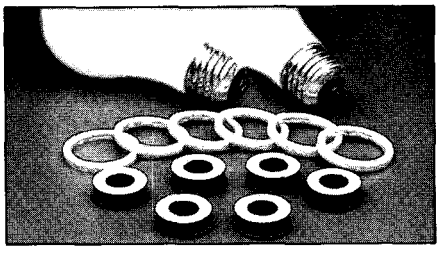

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The Book Case

From Economic Theory to Political Practice

The Supply-Side Revolution: An Insider's Account of Policymaking in Washington
By Paul Craig Roberts
Cambridge, Mass.: Harvard University Press
327 pp. $18.50

Reviewed by Martin Anderson

The comprehensive economic program that Ronald Reagan proposed during his 1980 campaign and tried to enact when he became president drew heavily on the intellectual work that many unsung scholars had been pursuing for decades. Paul Craig Roberts not only was a major contributor to the intellectual development of an important aspect of this program, but he also had the invaluable experience of wrestling with the difficulties of translating ideas into action, both in the Congress and in the executive branch.

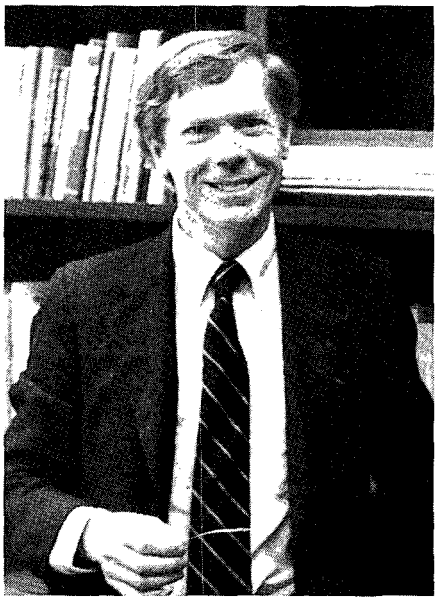
Roberts's new book, *The Supply-Side Revolution: An Insider's Account of Policymaking in Washington*, reflects that experience. It is a valuable addition to the growing literature on the major changes in national economic policy that occurred during the early years of the Reagan administration.

Authors who know both the intellectual and the political worlds are fairly rare. But those, like Roberts, who do have this combination of experience have more insight and are better able to make shrewd judgments than those with a less rich experience. It also helps to be able to write in clean, clear English, as Roberts does. While one may not agree with all of his observations of President Reagan's administration, one will never be unclear about his views on the subject.

By the end of 1980, this country was in an economic mess that was worsening daily. The real income of the average American was falling, unemployment was high, productivity was low, and both interest rates and inflation had approached the almost unthinkable level of 20 percent.

Bad as things were, prospects for the future seemed to be even worse. Federal spending seemed to be out of control; tax rates had risen so high that they were destroying people's incentives to work, to save, and to invest; and laws then on the books promised to push these punishing rates even higher in the near future. There was an economic crisis; and as its implications for the prosperity of individuals became more widely understood, the crisis became an acute political issue in the 1980 presidential campaign.

The comprehensive economic policy blueprint that Reagan had developed by the time he began his campaign for the presidency had five major elements: (1) to control the rate of growth of federal spending to more-reasonable, prudent levels; (2) to reduce tax rates on individuals and businesses to restore incentives;



Paul Craig Roberts, supply-side revolutionary, gives a behind-the-scenes account of battle strategy in THE SUPPLY-SIDE REVOLUTION.

(3) to reform, change, and eliminate existing and proposed government regulations; (4) to foster a more-stable, more-predictable monetary policy; and (5) to pursue a steady economic-policy strategy. In *The Supply-Side Revolution*, Roberts focuses on the development of the tax-policy element of this comprehensive program, with his emphasis on policymaking in Washington rather than on the intellectual and campaign battles that preceded the assault on official Washington.

What came to be known as "supply-side economics" quickly acquired a reputation as being new and radical. It was neither. The powerful incentive effects that taxation has on individual economic action have been an integral and respected part of traditional economic theory for many years. What was new was the increased attention being paid to those effects.

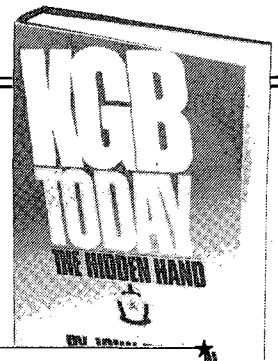
Some of that attention simply grew from the fact that rising tax rates had an increasingly negative effect the higher they got. And some of the attention was due to scholars like Roberts who, in their writing and lectures, tweaked the economic profession's tail for its benign neglect of this critical and basic element of economic policy. In the middle 1970s, Roberts and Norman Ture (who in 1981 became under-secretary of the Treasury for tax and economic affairs when Roberts was assistant secretary for economic policy) began providing intellectual counsel to Rep. Jack Kemp (R-N.Y.), counsel that eventually led to the famous Kemp-Roth tax proposal.

In a sense, Roberts's book is a personal, intellectual, and political odyssey. Its strengths are the observations and judgments that can come only from personal experience, from being there. Its weaknesses lie with the fact that Roberts could not be privy to the whole range of meetings and discussions and considerations that affected the determination of national economic policy.

Over the past few years there has been much speculation on who had the major impact on the making of Reagan's economic policy. Was it Don Regan, the secretary of the Treasury; David Stockman, head of the Office of Management and Budget; Murray Weidenbaum, chairman of the Council of Economic Advisers; Ed Meese, counselor to the president; Mike Deaver, deputy chief of staff and long-time advisor; James Baker, chief of staff; George Bush, vice-president; or myself, the domestic and economic policy advisor? The answer is that all of the above were significantly involved in the formulation of economic strategy, but the most influential of all, the person who dominated the direction of economic policy, was Ronald Reagan himself—a point the media always seem to underestimate.

During the early years of the Reagan administration no changes were made in long-term economic-policy strategy; those had been hammered out during the presidential campaign and the transi-

Photograph by Jody Croley



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Stanislav Levchenko was the first KGB defector to escape from the very core of that vile organization. Pure gold to the FBI and CIA. But after they debriefed him in November 1979, he sought out John Barron for some *real* talking. Levchenko felt that he *had* to unburden himself . . . disgorge all he had thought and done, all that happened to turn his stomach and change his heart.

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John Barron provides an early glimpse of Andropov

On November 5, 1956, as Soviet tanks prowled the city, Kopacsi and his wife were captured while fleeing toward refuge in the Yugoslav embassy. The captors took them to the Soviet embassy and Andropov. "He met us, and was rather cordial and friendly," Kopacsi recalled long afterward. One might have thought all was well, but suddenly the KGB dragged the couple away to prison. Kopacsi can still vividly recall looking back and seeing Andropov standing at the embassy gate, waving to him and smiling.

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tion. But there were a lot of developments in economic-policy *tactics*—how to get done what Reagan wanted done. Unfortunately, Congress, controlled by Democrats, did not always agree with the economic program that Reagan proposed during the campaign, and without their votes the president's economic program was not going to go anywhere.

At the outset of Reagan's administration there were few internal discussions about what to do—no one had any doubts about the substance of the program, no one tried to change the president's mind. The real problem that dominated discussion from early in the morning to well after dinner every day focused on how to get a Democratic Congress to support the president. Reagan's economic program never changed (and still hasn't), but his economic tactics changed time and again as he sought ways to accomplish as much of his economic policy as possible.

Paul Craig Roberts, as one of the key participants in this process, gives us a unique and illuminating view of this part of the policymaking process. The economic and political stakes were immense. It was particularly painful from the viewpoint of the Democrats. If Reagan succeeded in passing the essence of his economic program and it worked, they could be doomed to political oblivion for decades. If it didn't pass, or it passed and didn't work, the country could be doomed to economic oblivion for decades.

It's nice when what you want is good for both the country and your party. It can be painful when one seems to preclude the other. The Democrats' opposition was complicated by this dilemma and, after a long grueling battle, what was good for the country prevailed among enough Democrats to enable President Reagan to lock in place the most sweeping economic-policy changes of this century.

This book is a fascinating commentary on one of the most important economic-policy changes of our lifetime, told by one of the people who helped make it happen. More remains to be told about what happened, and more changes need to be implemented. Books like *The Supply-Side Revolution* may give us some strong clues about what will happen and how and why it will occur.

Martin Anderson is an economist at the Hoover Institution. He served as domestic and economic policy advisor in the Reagan administration from 1981 to 1982.

Toxic Myth

The Apocalyptics: Cancer and the Big Lie
By Edith Efron
New York: Simon & Schuster
512 pp. $19.95

Reviewed by William Tucker

This is a story that has to be told. It is one of the most extraordinary scientific scandals in decades. Years from now, our descendants may look at it in the same way we look back at the Salem witch trials.

It begins in the early 1960s when a diligent British scientist named John Higginson surveyed world disease patterns to see how cancer occurs. His object was to settle the dispute about whether cancer is a "hereditary" disease, carried in our genes, or whether it is initiated by factors in the environment.

Our descendants may look back at this story in the same way we look back at the Salem witch trials.

After completing his study, Higginson came down emphatically on the side of environmental causation. All around the world, he noted, cancer patterns could be traced to local conditions and customs. In Southeast Asia, for example, those who chewed betel nuts suffered very high rates of mouth and throat cancer. Chinese peasants who often ate food "garnished" with bacterial molds suffered high rates of stomach cancer. A common cancer in Africa, called Burkitt's lymphoma, was obviously tied to the incidence of malaria.

Cancer, Higginson announced, is 90 percent an "environmental disease," meaning that about 90 percent of the initiating agents come from outside our body (the other 10 percent are probably caused by our *own hormones*). The genetic argument had been thoroughly refuted.

Fine and good. What Higginson could not anticipate, however, was that the United States was about to be overrun with a social movement called "environmentalism," which was to concern itself with air and water pollution, toxic chemicals, and the by-products of industry.

And try as they would, Higginson and others could not prevent these same "environmentalists" from claiming that it was what *they* meant by "the environment"—the products of an industrial society—that was causing "90 percent of all cancers." Thus, by 1976, *Newsweek* magazine was declaring that "it's now generally accepted that 60 to 90 percent of all human cancer is caused by *man-made toxic chemicals*" (emphasis added)—a proposition essentially made up out of thin air.

In *The Apocalyptics*, Edith Efron has undertaken the monumental task of tracing through the entire process by which false environmental alarms have become faulty legislation, faulty legislation has become "regulatory science," and regulatory science has turned into the hysterical "carcinogen-of-the-month" syndrome. Her effort is utterly comprehensive. She has assembled mountains of information. Unfortunately, the book is also of a barely readable length. Efron rarely misses an opportunity to go into lengthy biographical detail, to quote multiple sources, or to give us three paragraphs of congressional testimony where one sentence probably would do.

Like many critics of environmentalism, Efron expresses deep resentment about Rachel Carson's success in combining bad science with felicitous, accessable prose in *Silent Spring*, Carson's classic on the environment. Unfortunately, Efron does not seem to realize that a book as encyclopedic as her own cannot hope to have a very wide readership.

I would suggest that anyone put off by the length of *The Apocalyptics* skip the first three chapters and go right to chapter 4, where Efron has assembled a landmark inventory of information, "The Earth's Carcinogens: A Survey." The entire flavor of the book is conveyed right here.

Did you know, for example, that dinosaur fossils show ample evidence of cancer of the bone and blood vessels? Did you know that oxygen regularly shows

up as a carcinogen (cancer-causing agent) in the bacterial assays that are commonly used to take sugar substitutes and food additives off the shelves? Did you know that 20 percent of the earth's elements are carcinogenic (and *not* because of their radioactivity)? Did you know that many essential nutrients, such as selenium, zinc, and manganese, are carcinogenic—and some of the same (selenium is the most notable) have also been shown to be *anti*carcinogenic?

As Efron so effectively demonstrates, the one thing that scientists have been able to prove about cancer over the last 15 years is that it is *not* the result of some simple-minded process of "one-time exposure to a known carcinogen." There are obviously layers of defense mechanisms in our bodies that separate us from the "sea of carcinogens" in which we live.

Yet this same simple-minded assumption—that we can drive all the "known carcinogens" out of the environment—has been the basis of the entire federal regulatory effort of the last 10 years. We wring our hands and cry "scandal" about a few parts-per-billion of some food preservative in our diet, while we regularly ingest much larger amounts of natural carcinogens with every meal. In this light, the nation's hysteria over "industrial carcinogens" looks more and more like the efforts of the medieval Flaggelants to cure themselves of the plague by stripping their own flesh to shreds.

As Efron also notes, the most obvious fact about cancer in the United States is that it is *not* increasing. Far from the public hysteria, scientists are quietly wondering about the "Paradox of Rehn": why has the increased use of industrial chemicals not caused an "epidemic" of cancers, as a Swiss doctor named Rehn had predicted in 1895?

America ranks far down the scale of industrial nations in cancer incidence. Some of the highest rates of cancer in the world are recorded in India, Africa, Southeast Asia, and rural Canada. Without the big increase in lung cancer—which is obviously tied to smoking—American cancers would be notably declining. Yet still, Dan Rather intones that "America leads the world in cancer," which he calls the "disease of the century."

The Apocalyptics is a truly heroic effort—the attempt by one lone individual to stem the tide of irrationality that has gripped the nation over the last 10 years on the cancer issue. Most remarkable is Efron's report that, out of the dozens of academic scientists who have praised the book in manuscript form, *every one of them has requested anonymity!* The peer pressure within the scientific community to "go with the flow" and blame industry for the mythical "epidemic of cancer"—instead of acknowledging the disease's obvious worldwide incidence and correlation with nonindustrial factors in our environments—has apparently reached the point where it can torpedo reputations and sink applications for government grants.

My advice to author Edith Efron and to publisher Simon and Schuster right now would be to take this monumental work and distill from it 120 pages of readable prose that could easily slip into the hands of secretaries as they ride home from work on the bus. Then this book will take on the dimensions of another *Silent Spring*, which it so richly deserves.

My advice to anyone who can't wait for that is to read this book now.

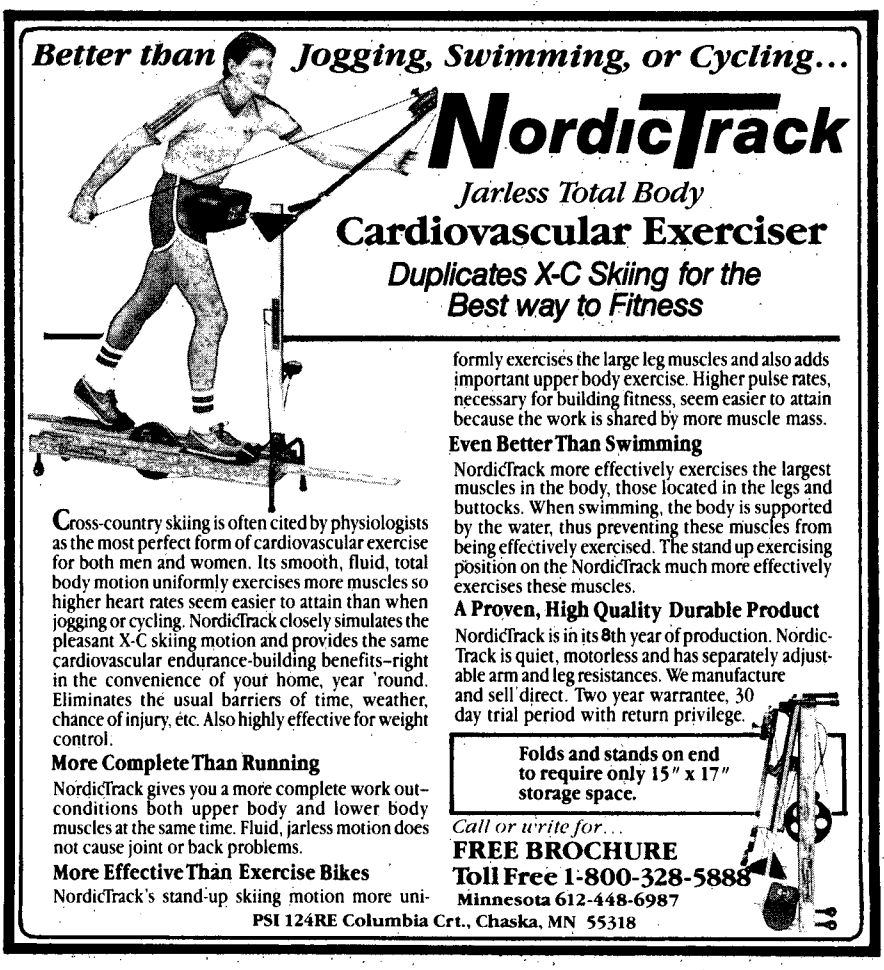
Contributing Editor William Tucker is a journalist who has written often on environmental issues. His book Progress and Privilege *was published last year by Doubleday.*

Throwing Out Government to Save the Bathwater

Water Crisis: Ending the Policy Drought
By Terry L. Anderson
Baltimore: Johns Hopkins University Press; Washington, D.C.: Cato Institute
121 pp. $15.00/$7.95

Reviewed by R. Bruce Den Uyl

Terry Anderson's *Water Crisis* provides an excellent introduction to "the new resource economics"—that body of work, increasingly well received, which brings together traditional economic insights, a regard for individual property rights, and a concern for the environment. Like *Water Rights: Scarce Resource Allocation, Bureaucracy, and the Environment*—the companion volume edited by Anderson and reviewed by Steve Hanke in the January REASON—*Water Crisis* is directed toward an academic audience. And while there is a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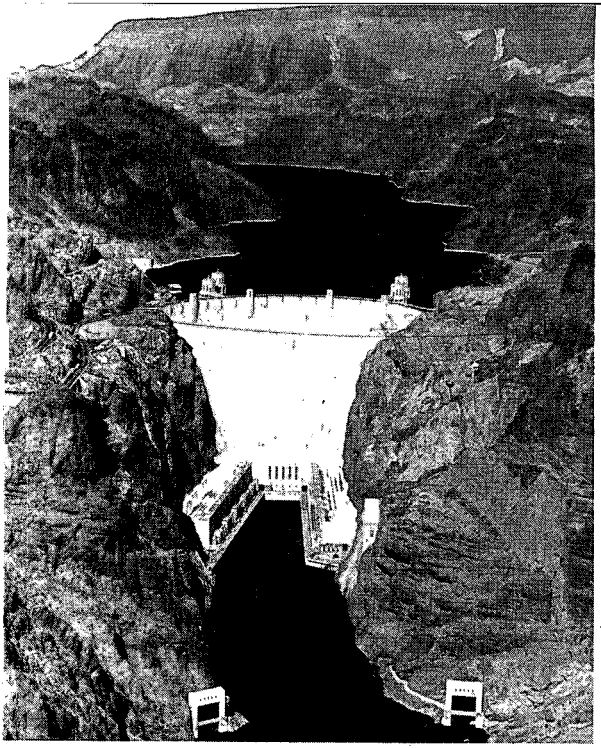

The Hoover Dam on the Colorado River is one of the government's many water projects. Without market pricing, the government must build ever more of them to balance supply and demand.

need, as noted by Hanke in his review, for a more stimulating, popularly oriented discussion of these matters that might be more widely read, Anderson's new book does take an important step in showing how privatizing water resources could alleviate a potential water crisis.

Anderson begins by quoting government projections that forecast an impending water crisis in many areas of the country, particularly in the West. My own review of many of these same studies suggests that we are many years away from all but isolated water shortfalls, even if present policies continue. However, this is a minor criticism.

The real problem is not that we will be unable to take showers in a few years but that present policies waste billions of dollars in misallocated resources and necessitate the construction of ever more water projects. This is because, as Anderson points out, current policies keep water prices below "market-clearing" levels. In a market, the price of water would rise until the quantity demanded at such-and-such a price equaled the quantity that suppliers would sell at the price. But in the nonmarket of governments' water policies, the only way to balance supply and demand is to build more water projects to increase supply.

Most readers of REASON probably know that the federal and state governments subsidize water production in the West, keeping the price low, at taxpayers' expense. Perhaps less well known is that there used to be a body of laws in the West (referred to as the Appropriation Doctrine), which established a system of private rights to water. The rights were clearly defined, enforceable, and transferable, thus facilitating a market for water. Unique to the West, this system was developed by pioneers facing a relative scarcity of water. Anderson provides an excellent discussion of the system's evolution and how it differed from the Riparian Doctrine followed in the eastern United States.

Since some people never seem to know when they have a good thing going, however, the courts and politicians started tinkering with the Appropriation Doctrine. According to Anderson, people argued against a fairly pure system of private rights to water for several reasons.

First, they feared that one company could come to control the price of water in an area. Anderson finds no empirical basis for this claim and suggests that individuals could tap groundwater resources or form associations to impose a bilateral monopoly to overcome this potential threat.

Second, some argued that private markets would be unable to provide the necessary funds for large projects. This constraint, Anderson contends, would be unlikely to occur if a project looked profitable.

But the biggest objection to private markets is the problem that economists have dubbed "externalities." More on this later.

Anderson points to four basic restrictions on private water rights that have contributed to the present-day misallocation of water resources. The first is the requirement that unless water is applied to a beneficial use (such as agriculture), the right to a prescribed quantity of water will be lost. This not only encourages wasteful overuse but also keeps water prices low for prescribed beneficial uses. Water may be more valuable, say, in a coal slurry pipeline, but unless this is designated as a beneficial use, the right cannot be transferred. The second restriction is preferential use, which dictates a pecking order of uses (for example, manufacturing over agriculture) having little to do with economic value. Third, there are restrictions preventing transfers of water away from the water source so that water that is not consumed will replenish the ground source. Finally, federal reclamation projects restrict transfers of water and how water is used.

The most interesting chapters of *Water Crisis* address how to privatize instream flows (water flowing in streams, rivers, etc.) and how to resolve the "common pool" problem associated with groundwater resources. Both chapters consider the sticky issue of externalities.

Many people suggest that in a free-market setting, with instream flows privately owned, amenity or recreational uses of water would be given short shrift. Yet private, environmentally oriented groups such as the Nature Conservancy and Ducks Unlimited devote private resources to preserve these uses, which are threatened under the present system of political determination of water uses. Anderson points out that in Great Britain, instream flows have been privately owned for centuries.

Groundwater presents a classic common-pool problem, where many users have unchecked access to a depletable resource. When no rights are established, there is an incentive to pump faster than one's neighbor, which raises pumping costs and induces accelerated use to avoid even higher pumping costs tomorrow. Anderson lays out an excellent system for assigning property rights to groundwater supplies. Rights would be transferable to maximize efficiency and to induce the owners to consider the opportunity costs of using water.

Although *Water Crisis* may not divert the potential reader from other activities on a Saturday night, it is highly recommended reading. Perhaps Anderson still will meet Steve Hanke's challenge to write a popular book on the subject that everyone, even politicians and bureaucrats, will enjoy enough to grasp the insights of the new resource economics applied to water.

R. Bruce Den Uyl is a specialist in natural-resource policy.

Double Jeopardy

Judgment in Berlin
By Herbert J. Stern
New York: Universe Books
384 pp. $15.95

Reviewed by Henry Mark Holzer

On the quiet morning of August 30, 1978, amidst the then-silent ghosts of Hitler's Germany, a small Polish airliner made an unscheduled stop at

Photograph courtesy Bureau of Reclamation

How to Acquire America's most powerful tax shelter for under $50

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by Ted Nicholas

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THE BOOK CASE

West Berlin's nearly deserted Tempelhof Airport. According to the riveting John Le Carré–like opening of *Judgment in Berlin*, by Judge Herbert J. Stern: "Hans Detlef Alexander Tiede, a resident of East Berlin, holding his arms raised with his fingers showing 'V' for victory, came through the hatch. He grinned at the American[s]. . . and threw his pistol to one of the colonels. 'Welcome to free Berlin,' said a colonel with a smile. A beautiful blonde woman, holding the hand of a twelve-year-old girl, stepped into the doorway. The other colonel roundly kissed her, as she and her daughter alighted from the plane. Eight of the other passengers immediately defected to the West. It was, obviously, another daring act of piracy by desperate East Berliners to win their freedom. But this one would be treated very differently from any other."

Just how differently this escape from communism would be treated—by supposedly free governments—is simply unimaginable until one reads *Judgment in Berlin*. The woman, Ingrid Ruske, and her young child would be held incommunicado for more than two months. When relentless interrogation would fail to produce a "confession," she would be tricked and coerced into making a statement against her interest. Although a prosecutor would be appointed hastily, she and Tiede would be denied counsel for months. The prosecutor would tell the judge not only that the "hijackers" had no right to a jury trial but also that they had no rights at all—except those that might be granted merely as a dispensation by the political and military authorities. In the months to come, those authorities would, more than once, tell the judge how to rule. And in the end, they would try to veto any decision not to their liking.

Were these the machinations of the Soviet Union, East Germany, or Poland, from which Tiede, Ruske, and her daughter had escaped? Was this an example of the practices of the Federal Republic of Germany or of West Berlin, whose continental legal systems are vastly different from our own?

No, indeed. Unbelievably, they were the policies and conduct of the US government, expressed and carried out publicly and without apology by representatives of the State Department, the Department of Justice, and the American military. Our government, in what had been the capital of Hitler's rights-less society, had decided that the three defectors had to be sacrificed to political considerations.

When the refugees stepped off the Polish airliner in the American sector of West Berlin, they walked into one of the most anomalous political jurisdictions in the free world. The complex legal-political status of West Berlin is not easy to explain (although Stern succeeds admirably). It is enough to know that in order to protect this free city deep in the heart of communist East Germany from the Soviets, and to preserve the rights of West Berliners and others who venture there, the post–World War II "occupation" by the United States, France, and Britain still exists. So although German civil institutions do function in West Berlin, in both a practical and symbolic sense they are subordinate to allied military commanders.

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THE BOOK CASE

The West German constitution presents a further complication: It recognizes all East Germans as West German citizens, with the right to defect from communism. Yet at the time of the Tiede-Ruske escape, the Bonn government—as well as the United States—was a party to international conventions requiring all airplane hijackers to be either extradited or prosecuted.

Because the West German government wished to do neither, it passed the buck to the United States. Using the "occupied" status of West Berlin as the pretext, the West Germans prevailed on us to convene an American "occupation court" in the American sector—a court that would apply West German law.

But did the US government undertake the case in order to see that justice was done? Were the rights of the defendants to be fully protected in accordance with an American-style trial on the merits? Or did the State Department merely want a political forum in order to satisfy international treaties and foreign pressures? Was it out to get a quickie nonjury-style inquiry, a prompt conviction, a compromise sentence tough enough to appease the communists but not so tough as to enrage the West Germans?

In answering these questions, *Judgment in Berlin* chronologically traverses the nine months of events from the August 1978 hijacking to the case's conclusion in May 1979. In between, we come to know the refugees and the motives and events leading to their dramatic grab for freedom aboard a Polish airliner.

We learn how the US District Court for (the American Sector of West) Berlin was established by the State Department, how a "law and order" federal district judge from New Jersey—Stern—was chosen to preside, and how a US attorney for Berlin and a Justice Department trial prosecutor were selected. We are privy to the judge's appointment of eminent trial counsel, Judah Best and Bernard Hellring. We listen with the judge as he ponders the charges (hijacking, taking a hostage, depriving persons of their liberty, doing bodily harm to another, possessing an unlicensed firearm) and the possible defenses under West German law (justification and excuse, choice of evils).

We are incredulous as American prosecutors make inconceivable arguments: The US Constitution does not apply in the US District Court for Berlin; no one in the American sector of West Berlin—soldiers, dependents, government employees, Germans, or tourists (including Americans)—possesses any rights other than those granted by the Department of State; the judge is not an objective dispenser of justice but a mere government flunky.

And dimly we hear echoes of the same ideas from a Berlin of decades past. We realize, with the judge, that "somehow, beyond their comprehension, [the defendants] had inadvertently generated forces that were about to do battle over issues and principles that had nothing directly to do with them."

We watch as the judge tries to persuade the government to abandon its position. And when he fails, we applaud his ruling. We are fascinated at how a West Berlin jury is obtained and are appalled at how an American military witness for the prosecution bends the truth.

We choke with emotion as defendant Tiede rejects a deal that, at worst, would net him a few months in jail, in favor of a trial that could get him years—because he believed in his innocence and because he had just witnessed the unimaginable scene of an American judge standing up to his government by suppressing Ruske's unconstitutionally obtained statement. We are caught up in the dramatic testimony of the defecting passengers. We see defense counsel Best and Hellring fighting for their clients with passion and eloquence.

We hear about other successful escapes from behind the Wall—and about unsuccessful ones. We read, awestruck, the summations. Prosecutors deny the defendant's right to break free as he did. Hellring, tearing at our hearts and consciences, tells the West Berlin jurors that "there comes a time for those of us who are blessed to have a moment in our lives when we can strike for freedom, one small stroke which can be heard around the world. This is such a moment for me and it is such a moment for you."

We hear the charge: burden of proof, justification and excuse, choice of evils, freedom and communism, the Wall. We await the verdict, drained. And greet it with surprise.

We experience all this—and more—in Stern's beautifully written, clearly organized, and highly dramatic *Judgment in Berlin*. The book contains great irony, agonizing introspection, personal heroism and national pride, fiction-like drama and real-life consequences. Included are hard choices, clever tactics, cruel dilemmas, legal puzzles, political contradic-

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tions, blatant compromises, and cherished principles.

But *Judgment in Berlin* is still more. It is, in essence, the story of a moral stand. It is the story of how and why Stern said no to his own government's arrogant attempt to railroad two desperate and vulnerable people, refugees from beyond the Wall.

Somewhere in his book the author observes that a judge's sacred duty is to do justice. *Judgment in Berlin* is a shining and eloquent example of how Stern—alone in a distant land, armed only with his black robe, its moral authority, and the American Constitution—discharged that duty.

Henry Mark Holzer is associate dean of Brooklyn Law School and the author of Sweet Land of Liberty? The Supreme Court and Individual Rights. *This review is reprinted from* Legal Times of New York.

The Woman Behind The Welfare State

The Diary of Beatrice Webb, Vol. 2, 1892–1905: "All the Good Things in Life"
Edited by Norman and Jeanne MacKenzie
Cambridge, Mass.: Belknap/Harvard University Press
376 pp. $25.00

Reviewed by Joan Kennedy Taylor

Beatrice Potter was a brilliant, middle-class beauty with a small private income, who had an agonizing relationship with the Liberal political leader Joseph Chamberlain, whom she loved but would not marry because she disagreed with his political ideals. Instead, she was drawn to the ideas of Sidney Webb, a brilliant, ugly Cockney, who had been one of the founders in 1884 of the Fabian Society, that British intellectual group organized like an exclusive club and dedicated to bringing about socialism without revolution by permeating the existing political establishment instead of confronting it.

The Webbs married in 1892, when *The Diary of Beatrice Webb*, volume 2, begins. They immediately plunged into a working relationship so close that she described it as "almost a joint existence." Their aim was to create a body of information and ideas that could influence whichever politicians were in power at the moment. Together they founded and nurtured the London School of Economics and wrote monumentally detailed books that promoted socialism. They preferred to call it "collectivism," perceiving this as a term at once more general and less apt to arouse negative reactions in those whom they sought to influence. But they promoted it as the only truly scientific approach to society.

This diary can be looked at in many ways. It is the record of an intellectual woman, childless by choice and determined to devote her life to research, but torn about the importance of motherhood and the emerging movement for women's rights. It is a gossipy record of the lives and thoughts of some of the most interesting and influential writers and politicians of the late Victorian era. And it is the psychological story of the successful struggle of a person who felt profoundly torn between her heart and her head and was determined to mold her life and work into more efficient patterns, just as she wished to mold society.

But precisely because permeation of the existing political establishment was such a spectacular success and the Webbs were to see in their lifetime the introduction of many of the trappings of the welfare state in Britain, it is the political saga that must remain the most important thread of this diary. This volume deals with the ascendancy of the Webbs' influence, from their marriage when she was 34 through the publication and critical success of their first two joint books, *The History of Trade Unionism* and *Industrial Democracy*. We see them move from small meetings with equally obscure comrades to fame and dinner parties with prime ministers, from trying to influence local schools to being unofficial advisers on national policy.

Beatrice Webb held that elite thinkers (like the Fabians) not only would have to discover the principles of efficient administration but would have to impose them from the top down. That was why she wanted to transform British government into the rule of the expert, "to extend the sphere of government by adding to its enormous advantages of wholesale and compulsory management, the advantage of the most skilled entrepreneur." Nor was she slow to notice that really large and efficient entrepreneurs seemed to be no enemies of government regulation. She was authoritarian in many ways: an advocate of church establishment, an opponent of letting women vote, and a supporter of the Liberal imperialists ("They have no prejudice against our view of social reform, whilst their general attitude toward the Empire as a powerful and self-conscious force is one with which we are in agreement").

On the other hand, she was working at a time when no one foresaw the grey world of the British welfare state, in which the individual disappeared and rights and privileges pertained only to members of groups. Hers was the world of free trade and Social Darwinism, in which Beatrice tried to rid herself of "laissez faire bias" in order to combat "bigoted individualists." As a young woman doing social work in her twenties, it was the family friend Herbert Spencer who was her mentor. In this diary we see Spencer as an old man, querulous and ill, whom she continues to visit not just because of the pull of old ties but because his method is incorporated in all her work. "He taught me to look on all institutions exactly as if they were plants or animals, things that could be observed, classified and explained and the action of which could to some extent be foretold if one knew enough about them."

How had a disciple of the individualist Herbert Spencer become a champion of collectivism? Her criticism of utilitarian ethics and of Spencer's "strangely crude

QUOTABLE QUOTE

The real choice is the choice between all forms of authoritarianism on the one side and, on the other, the dream of a whole and responsible human freedom. The real conflict, in other words, the underlying conflict, is not the struggle between the Kremlin and the West which the press associations report from day to day. The real conflict is the conflict between world reaction, which preaches submission to authority, whether of a state or a man or a party or a church, and world revolution which is still, however the various reactionaries may attempt to confuse the issue, the revolution of the individual, the revolution of the whole man.

Stated in terms of structure, the real alternatives are, at the one pole, a cellular, authoritarian society in which individual human beings may live their lives through the life of the society as a whole, and at the other, a world of individual men, whose relation to each other, in the freedom of their individuality, will create a society in which each can live as himself.

—Archibald MacLeish, "The Conquest of America," *The Atlantic*, August 1949

vision of human life as a series of hard bargains" led her to mistrust deductive reasoning and abstractions. The utilitarian, she charged, "never asked—is it so?"

By contrast, the Webbs worked by the inductive method, hammering out hypotheses from masses of facts that they were trying to explain. And Beatrice thought it was their gathering and analysis of facts that would last, not the hypotheses, which she was convinced would be "either truisms or fallacies in a generation's time." The individualists of the past who had wanted to limit government were "to a large extent right" in their day, she mused, though hindsight showed that the corruption they were opposing was not "any necessary characteristic of state action." She conceded that the principle of collectivism might also have limits in its application; but turn-of-the-century England, she said, was nowhere near those limits, so "we can cultivate this principle vigorously for all it is worth." It was a point of pride with her that "the men and women of today distrust general principles even though they are prepared to use them."

So we're left with permeation, a brilliant strategy and a blueprint for successful political change that is still valid today. Change doesn't come from organizing unthinking people around slogans; it comes from providing evidence and argument to convince thinking people that certain policy changes will be beneficial. But to do that, one needs to pay as much attention to what *beneficial* means as to the facts of the policy. Beatrice Webb didn't do that. Her hypothesis that socialism would combine maximum efficiency with maximum consent was unexamined and unproved; her principle of collectivism, little better than a slogan. Perhaps it's not accidental that she, who began as an admirer of Herbert Spencer, was by the time she died in 1943 an admirer of the Soviet Union and of Joseph Stalin. This diary doesn't give us a map for that seemingly incredible intellectual journey (the diary ends in 1905), but it does give us some clues about why the journey may have taken place.

She saw utilitarian principles as being without factual support. So she went to the other extreme and chose to deal instead with facts without principles or with "distrusted" principles whose value was therefore primarily for propaganda effect. *Science* became the only abstraction she trusted—and science, she noted several times, cannot determine ends; it can only show how they can be achieved. It's not that Beatrice Webb had a faulty vision of what all this activity was going to lead to. She had *no* vision of the future. The reader, having seen what lies at the end of the road, is not so fortunate.

Joan Kennedy Taylor is publications director of the New York–based Manhattan Institute for Policy Research.

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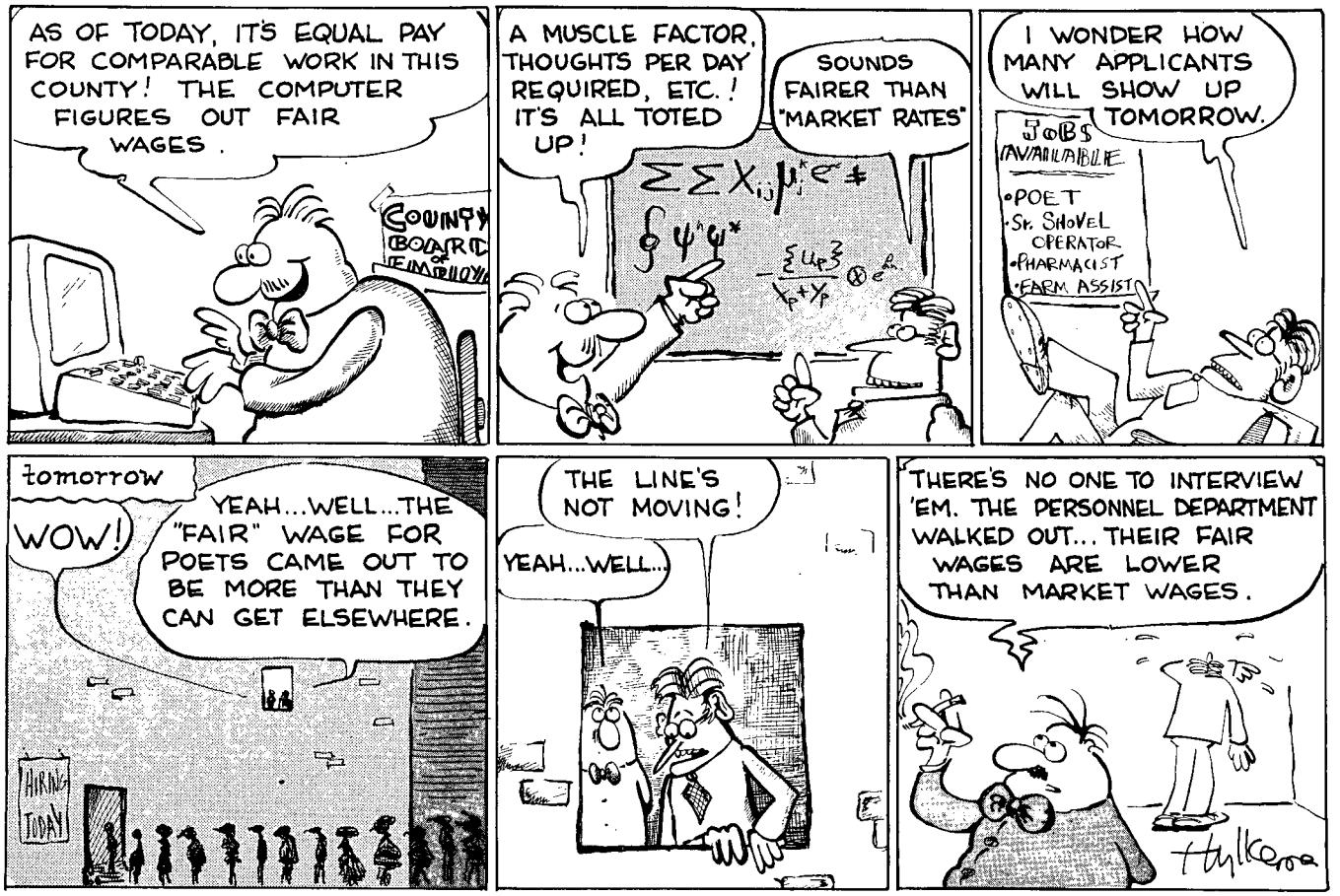
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THE CLASSIFIED AD DEADLINE FOR THE NOVEMBER ISSUE IS SEPTEMBER 1.

LIFE & LIBERTY

(Continued from p. 51)

replaced as long as you have access to a telephone.

Eventually, you will be in constant contact with your own mainframe through radio terminals. Input will probably be voice-actuated (or even, it is exciting to speculate, cerebrally entered). But that is the future. For those who appreciate technology and the personal power that computers bring, the lap-size portables available now are more than tools. They are toys with symbolic importance, because they give us access to a worldwide network of information and the capacity to control anything that can be reached by microwave or radio-telephone service.

They are useful, without a doubt. But the market also serves other functions. In this case, it serves a fascination with gadgets that have approached the level of art form.

Patrick Cox is public affairs director of the Pacific Institute for Public Policy Research. He is also a free-lance journalist and science-fiction writer.

LETTERS

(Continued from p. 8)

Houston data because they cover all the categories and because the Select Committee itself relied heavily upon that study.

FAIR has tried to negate that evidence, which it correctly appraises as quite damaging to its position, by asserting that the situation has changed since the previous studies were done. And it supports this claim by pointing to the later study by North that Burns refers to. There are two strong reasons why this assertion is unfounded. First, North's study does not at all prove what FAIR says it proves; to the extent that its sample is relevant, the study agrees with my basic proposition. And second, two excellent new studies go even further than the old studies in supporting the proposition.

Burns is demonstrably wrong about North's work. He says that North did a follow-up survey of the same population." That is incorrect; his later study covered a sample drawn from Social Security records and included only those illegals who gave Social Security numbers at the time of apprehension; there was no connection with the persons in his original study. And the study itself was certainly less representative than any other study of the topic because of that sampling method. As North notes, another sample of forms filed at apprehension by more than 500 apprehendees showed that only two indicated Social Security numbers. And certainly those reporting SS numbers are more likely to have been in the country a long time and therefore to be more integrated into the community and hence use more services than the average of illegals, which other of North's data corroborate.

And just to make the cheese more binding, let us note that even for this sample of North's, the data indicate that the illegals contribute far more to the public coffers than they take out in benefits. The main welfare cost that North finds with this group is unemployment compensation. And he estimates that illegals' contributions for unemployment insurance alone more than counterbalance their receipts from it. And the payments by the illegals for income tax and Social Security were *12 times* the payments for unemployment insurance, while, as North notes, this group "drew no benefits" from Social Security. This is the study that FAIR relies upon to show that immigrants are net takers from the public coffers?

Furthermore, within the last year two excellent new studies have appeared, one of Mexicans in Texas, by Weintraub and Cardenas, and one of illegals in California, by Muller. Computations from the data in both show massive net contributions to the public coffers by the illegals. Space is lacking here to document this; details may be found in the printed version of a debate between Roger Conner, executive director of FAIR, and this writer on May 30, 1984, to be issued by the Heritage Foundation.

Put the Bald Truth Boldly

Thanks for the Trends item "Voodoo Vindicated" (June-July). But I wish you would put it in big, bold, black letters that the Reagan tax cut did not favor the rich. The June 29 issue of *National Review* carried an article by George Gilder, "What Ronald Reagan Doesn't Know about His Own Achievements." He tells it all—what's been spent on welfare and how the rich paid their part and more. It's a very informative piece.

Helen R. Cox
Mt. Airy, NC

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Further & More

MISSILE INTERCEPT MILESTONE

The June 10 interception of a reentering warhead by an Army antiballistic missile (ABM) was an important step forward in developing defenses against nuclear attack—a subject covered frequently in REASON editorials and Trends reports. But its importance did not lie in the reasons given in most press reports.

The actual interception of a warhead by a missile is nothing new; the first such event took place some two decades ago. The real significance of the June 10 test is twofold. First, it demonstrated the ability of a self-guiding (infrared) interceptor warhead to find the target and home in on it, rather than having to be guided all the way by ground-based radars. Second, it proved the effectiveness of a non-nuclear kill mechanism—a 15-foot metal "net" that destroys the incoming reentry vehicle simply by the kinetic energy of smashing into it.

Thus, the test provides strong evidence that existing guidance and non-nuclear kill-mechanism technology can be effective as an ABM mechanism—which is precisely the point raised by advocates of proceeding with a near-term, off-the-shelf missile defense such as High Frontier (see Trends, June-July, p. 14). A meaningful degree of defense against nuclear attack can be provided by using today's technology, while R&D is proceeding on more-exotic space-based "Star Wars" system for the future.

PRESS TO THE WALL

One wonders if the Securities and Exchange Commission (SEC) has ever heard of press freedom. As Michael McMenamin and William Gorenc documented in their REASON article "Subverting the First Amendment" (Jan. 1983), the SEC has engaged in wholesale violations of the First Amendment rights of financial-newsletter publishers.

In May the 850-member Newsletter Association pointed out that the SEC's control of financial newsletters is harsher in several ways than the infamous UNESCO proposal for a New World Information Order to control the press. The Association noted that unlike the regulations that UNESCO would create, the US government via the SEC licenses publishers, regulates publishers and writers, and has the power to ban publications both nationally and globally, impose criminal penalties for violations, and maintain a blacklist of banned publications.

Such powers are evidently not enough for the SEC, however. In its lawsuit against former *Wall Street Journal* reporter R. Foster Winans, who allegedly took $31,000 in exchange for stock tips, the SEC is maintaining that a reporter has a duty to disclose his or her financial interests to readers.

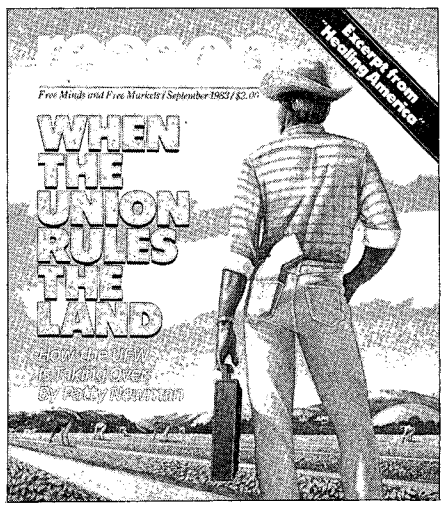
That has journalists and constitutional lawyers up in arms. As lawyer Floyd Abrams notes, it amounts to government setting preconditions for working as a journalist, and that, he said, is "very troubling." But Sen. Alfonse D'Amato (R-N.Y.) is sponsoring legislation that defines "insiders" to include journalists. (SEC regulations have long prohibited "insider trading" by corporate executives, using their access to internal information to make gains in the stock market.)

But all the news is not so bleak. In May came word that newsletter publisher Christopher Lowe is asking the Supreme Court to overturn a circuit court decision that upheld a prior restraint on his publication of financial newsletters. As McMenamin and Gorenc recounted, Lowe's SEC license to publish financial newsletters had been revoked by the commission because of his previous criminal convictions unrelated to his publishing business.

Lowe's case has long enjoyed the support of much of the financial-newsletter industry, but it got a big boost on June 6 when the *Washington Post* published an editorial strongly favorable to Lowe's First Amendment rights. "It is a case we hope the court will hear," said the *Post*. "[Newsletter registration] is an unwholesome practice and a violation of the First Amendment as most people have understood it over the past two centuries. . . . The financial publications are an important part of the American press, and the Supreme Court needs to take a thoughtful look at that misguided appellate court decision."

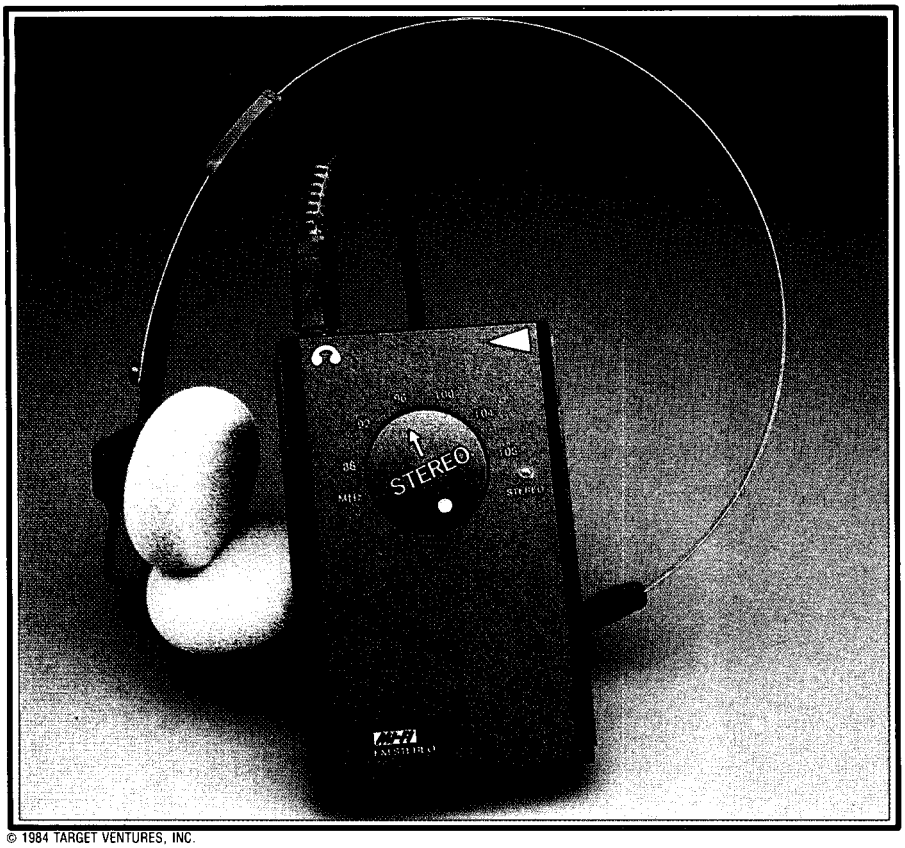
AND MORE

• *Union power left standing.* The controversial "good standing" provision of California's farm-labor law was recently upheld by a state court of appeals. As detailed by Patty Newman in her article "Harvest of Power" (Sept. 1983), the provision allows farmworkers' unions to have workers fired if they violate union rules; federal labor law, in contrast,


Excerpt from "Healing America"
Free Minds and Free Markets / September 1983 / $2.00
WHEN THE UNION RULES THE LAND
by Patty Newman

says that a union can have a member fired only for nonpayment of union dues. The court ruled that the United Farm Workers union had acted legitimately under the state's law in ordering some members fired for crossing picket lines during a lettuce strike in 1979. The decision is being appealed to the state's supreme court.

• *Eager TV entrepreneurs.* Since the Federal Communications Commission opened up the microwave end of the TV broadcast spectrum to greater commercial use last year, it has received *more than 16,000* applications to broadcast on these frequencies. Prior to the FCC decision, much of this part of the broadcast spectrum was reserved for use by nonprofit and educational organizations, with commercial operators restricted to only one channel per market. Consequently, out of thousands of available channels, only several hundred were being used. The intense interest in the opened-up microwave frequencies indicates the degree of competition that might flourish in the TV industry if regulators would ease restrictions even more (see "Cable Competing by Many Other Names Spells the Same," June-July, p. 24).



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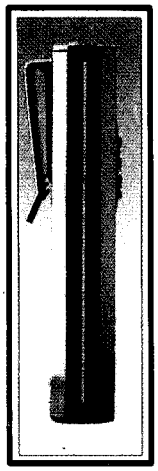

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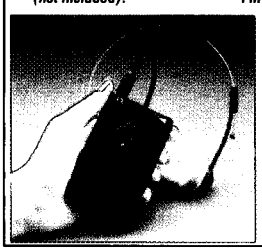

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